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Standing committee on finance and economic affairs

1991-92 budget

Assemblée législative de l'Ontario

Première session, 35^e législature

Journal des débats (Hansard)

Le mardi 27 août 1991

Comité permanent des affaires économiques et financières

Budget de 1991 à 1992

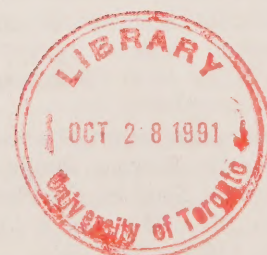
Chair: Jim Wiseman
Clerk: Todd DeckerPrésident : Jim Wiseman
Greffier : Todd Decker

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LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Tuesday 27 August 1991

The committee met at 0900 in the Parkway Motor Inn, Cornwall.

1991-92 BUDGET

Resuming consideration of the 1991-92 provincial budget.

ONTARIO FEDERATION OF LABOUR

The Chair: The standing committee on finance and economic affairs on the budget review will resume the hearings here in Cornwall. Our first presenter will be the Ontario Federation of Labour, Mr Gord Wilson, president. Welcome. You have one half-hour.

Mr G. F. Wilson: First, on behalf of the members of the Ontario Federation of Labour, all 800,000 of them, I want to thank you and the members of the committee for giving us this opportunity to appear. As you will note, we have a rather substantive and lengthy submission. I propose not to read it but rather to attempt to highlight the points contained within it.

The submission really is broken into five subject areas or subheadings, but before beginning to highlight those parts of the total submission, I want to make an observation. In dealing with the question of the budget, it occurs to us that if the objective of a government is to attempt to secure a future and some prosperity for its citizens, then surely the focus has to be on improving the conditions of that citizenry, recognizing as well that those citizens residing within the boundaries of this province have limited, if any, mobility.

Therefore, recognizing that, the government must deal with a public policy framework that does not, I suggest, attempt to enhance the mobility of capital, therefore strengthening its leverage and bargaining power in its dealings with the province. In other words, we ought to find ways, if we possibly can, to break out of the cycle that currently is in effect where a capital formation would come to the government of Ontario, or indeed anywhere within this country, and suggest these are the conditions upon which it is prepared to make investment within the province.

Our difficulty of course is that with no other source of capital we find ourselves having to meet those conditions as they play us off, for example, against the northern states in the United States or perhaps even as far south as the Carolinas or those areas where they would be negotiating with other foreign jurisdictions in opposition to us. I just want to make that observation. I will attempt at the end to address that point and perhaps members of the committee may want to explore it.

The first subheading appears on page 1 and deals with the economic climate. If I can just quickly go through the situation, if you compare the current recession we find ourselves in with that which we experienced in 1981-82, we find that in this province in the past year we have lost

about 214,000 jobs as opposed to 89,000 at the height of the recession of 1981-82. That is a minus of about 4.3% in employment level higher than what we experienced in the recession of the early 1980s.

Second, I think it should be noted that Ontario, more so than any other jurisdiction, has been adversely affected. The job loss in Ontario is twice that of the national average and quite frankly counts for about 80% of the jobs that have been lost across the country.

The third observation in that first subsection is that the recession we are undergoing is certainly not a cyclical recession. It is a structural recession as a result of a made-in-Canada recession. When one looks at the layoffs that are taking place within our province, given our reliance on a branch plant economy with regard to the manufacturing sector, 65% or roughly two out of every three layoffs that take place are as a result of partial and complete closures. What is significant about that figure of 65% is that by comparison in 1982, in the depth of the 1981-82 recession, workers laid off accounted for 24% as a result of complete or partial closure. We now have two out of three workers without any jobs at all to return to as opposed to the last recession where slightly lower than one in four did not have jobs to return to.

It is also interesting to note that when you analyse where those closures and layoffs have taken place, the majority of them are non-union, low-paid jobs. Many of them are jobs that do not come near the average industrial wage in Ontario. Therefore, I argue that to argue that simply a simple-minded approach of reducing wages and social costs of the employer will somehow keep those plants here is not true, as they have taken flight to the United States and Mexico. Many of those jobs, the majority of them, are non-union jobs and low-paid.

It is also interesting to note the economic climate as it applies to bankruptcies. Bankruptcies in business are up 73% in 1990 over 1989. Personal bankruptcies are up 83% in 1990 over 1989. The indications are that 1991 will be worse. When one looks at January and February of 1991, the statistics that are in there, that accounts in the first two months of 1991 for about one quarter of all of the bankruptcies that took place during 1990. If we stayed on that course, we would probably be about 50% higher again in 1991 over the already horrendous bankruptcy levels in 1990.

The second phase of our submission begins on page 4 and talks about the role of the federal government, which I suggest has completely turned its back on this province and certainly the people within it. If one wants to look for evidence, I suggest that perhaps the most startling evidence appears with the cap that the federal government has applied in established programs financing and the Canada assistance plan across the country with the three major provinces, but more specifically in Ontario. It is a cutback

in federal funding to Ontario of about \$3.6 billion. It is startling as well, when one looks down the road, that in the next five years it is estimated those cuts will total about \$15 billion, with about \$11.2 billion of that \$15 billion under the established programs financing and the other \$3.8 billion being under the Canada assistance plan.

I refer you to page 8 of our submission. There is a chart which has projections by the National Council of Welfare of federal cash outlays for health and higher education. You can see the federal government wants to completely abdicate its responsibility, in that by the year 2006 its transfer payments for health and education are projected to zero.

The third aspect I would like to raise is the free trade agreement itself. We all are familiar with the debate. We need not spend a great deal of time on it this morning other than to indicate that the jobs that were promised have not been forthcoming. There has not been any training, as promised by the Prime Minister. In fact, the federal government has gone the other way in cutting \$100 million out of the Canadian Jobs Strategy from that budget. We have seen cuts in unemployment insurance, both in the time period in which people can qualify for it and the benefit period itself, and at the same time a further burden placed upon employers and workers in an increase in the premiums for unemployment insurance. Effectively what has taken place there is the federal government now has liberty to establish its own economic and fiscal policy and then not to have to take any of the blame, in that it is withdrawing from its responsibility of providing funding on the unemployment insurance program.

The goods and services tax, we have estimated, will cost consumers in Ontario approximately \$9 billion or about \$570 per average family. The GST, again, is another policy generated at the federal level that shifts the tax burden, which is already unfair, even more heavily upon the average citizens in our province.

Although it is not in our brief, it is interesting to note that when you look at a Statscan report on national income and expenditure accounts—and if anyone wants to note the number of the report, it is 13-001—in looking at the percentage of revenues garnered by the federal government from both the corporate sector and from personal income tax, 28% of the total revenue of the federal government came from the corporate sector and 26.5% came from personal income taxes in 1950. The reason I raise this point is to show that the GST further aggravates that shift, in that in 1989 corporate tax as a percentage of federal revenues accounts for only 9.7%. In other words, it dropped from 28% to 9.7%, and personal taxes have increased from 26.5% to 53.7%, so there has been a considerable shift over the 39-year period, placing more and more taxes on the average earner and personal income taxes as opposed to the corporate sector.

0910

Finally, of course, the role of the federal government, in looking at its fiscal and monetary policy, the artificially created interest rates and overvalued dollar, which is responsible for those high interest rates, has surely done tremendous damage within the export sector of Ontario, in that it has made it almost impossible for a number of employers

and their companies to be competitive with our trading partner south of the border.

On page 14 we raise the issue of the Ontario budget. Essentially, it is our view that the Ontario government made a choice. They decided not to fight to the deficit. They wanted to fight the recession. We interpret that as an attempt by the provincial government to protect the citizens of this province from the policies, which I view to be irrational, extrapolated and presented by the federal government.

When one looks at the Ontario budget, although there has been a considerable amount said about its weaknesses, as suggested by others, it is interesting to note also that a number of rather notable authorities have come to the defence of the provincial government with regard to the budget. The Conference Board of Canada, I am sure all of the committee members are aware, has been supportive of the Ontario government and pointed out that there is a latitude of about only \$640 million dollars in new money that was spent. The Conference Board report, for your information, is appended to our submission.

In addition, we have another appendage, which is from the Canadian Centre for Policy Alternatives, where 59 economists from across the country have as well spoken in support of the government's action. You are aware—and it is contained within our brief—of some commentary by John Kenneth Galbraith with regard to the budget. Although it may seem surprising to some, the Toronto-Dominion Bank itself has indicated support for the government's action.

So I argue on behalf of our members that we interpret the Ontario budget to be the government complying with its duty to protect the citizens from the ravages of the policies that have been generated at the federal level.

Now, there has been a great deal said about the deficit. I am turning to page 17 of our documentation. I think it is important to put the Ontario deficit in perspective with what is happening in our country. First of all, the current government was faced with a \$2.5-billion deficit when it came to power in 1990. We all are aware that this is the worst recession since the Great Depression. The government is facing falling revenues as a result of more and more workers becoming unemployed and, of course, closures, partial and complete. There is more strain on the falling revenue side as more and more personal and business bankruptcies continue, and the cuts in federal transfer payments. On the other side of the ledger, they are facing increased costs in health and education and in trying to support those who are unemployed and have gone into bankruptcy. The instrument by which they attempt to do that is through social services. People often are critical of social services. I think it is important to recognize that within Ontario, 42% of social assistance beneficiaries are children. People ought to keep that in mind when they are critical of social service expenditures.

I guess the question to be asked those who detract from the budget is, if there are to be cuts, what is to be closed, what is to be cut? I mean, are we talking about cutting schools, are we talking about hospital beds? If so, the people who are the detractors ought to have the courage to stand up and say where that is going to take place so that we can debate something that is before us rather than some theory.

I would refer you again, if I can, to page 19 of our submission, which talks about the question of the deficit in perspective, and I think what is important in the chart that appears there is that the per capita expenditure in Ontario is much lower than either the federal government or the governments of Alberta and Saskatchewan, if one wants to find some comparison.

It is also important, I think, to remember when we look at page 20 of our submission, what it costs to service the debt. The federal government, which is most critical of the Ontario deficit, spends 36 cents of every dollar right now to service the debt as opposed to the 10 cents that the province of Ontario is spending, projected to be about 11.6%, and of course higher than only the provinces of Alberta and British Columbia with regard to servicing.

I think the final point raised in our brief—it begins on page 23—talks about, where do we go, how do we get out of the morass that we are currently in, what are some of the measures that are within the provincial government's purview to take, and additionally, what voice should it be raising in the national debate around where Canada should be going within this new global competitive model?

I am reminded of an old Chinese proverb, if I could take just one moment to tell you what it is. It is a very practical proverb and it says, "If you don't change your direction, where you're heading is where you're going to end up."

I think what we see before us is a track record of federal government fiscal and monetary policies that have led us to a point, and if we are to continue to apply the same mechanisms to the situation, then surely it is reasonable to assume that where we will end up will be in a position at least as bad as we are currently in or perhaps even worse.

I think what we have to do in this province somehow is find a way to reduce our vulnerability to external forces, and the only way that could be achieved, I think, is to take a look at what has happened in the stronger economies in the world, whether one looks at Japan—that is one model, and certainly one which I do not totally subscribe to. But if we are talking about, how one finds a way to survive within a global economy—and Ontario of course has to be considered in that context, given that we represent about a third of the population of this country—one can look at what is arguably the strongest economy in the western world, which is that of West Germany, or now Germany.

Of course, there are examples throughout Europe and Scandinavia of countries that have found ways to generate capital from within and by doing that have reduced their vulnerability to external forces and have been able to get to their objectives of picking what it is that they can compete upon in a world market, not on a basis of, "How do we drive down wages, how do we drive down salaries, how do we reduce the costs of social services?" but rather have taken a much more humane approach in arguing that there are ways by which we can create not only a high value added export market but also a considerably strong domestic market by generating capital from within.

There are available to us, where we want to pursue them, a number of mechanisms to generate some of that capital. For example, within this province there is a considerable amount of money residue within private and public sector

pension funds. We have not utilized anywhere near fully the process of attempting to generate community capital funds, nor have we dealt with the question of worker investment funds where workers can be full participants in the economy, or the concept of worker and community buyout such as we have seen in both Kapuskasing and Sault Ste Marie.

Obviously, in order to be competitive, one understands that we also need a massive public infusion of dollars into Canadian-based research and development, which is going to give us the technology, which is going to allow us to get on to the market those products which we require to support our economy, and so we have to look seriously at where we make those investments in research and development and at the same time train to the highest possible level the training skills of our workers and managing skills within our economy.

Of course, part of this can be achieved as well in using the leverage of a tax system which addresses that question and where there can be rewards for those who are making a commitment to this province as opposed to those who like to take what they can and run.

I often am puzzled by the view that somehow we have to be attractive to investment and that is the only way we can survive. When one looks at the numbers in the period 1980-89 in Canada, for every dollar that was invested in Canada from external sources, \$5 went out. In other words, in the period 1980-89—and this is again a Statscan figure; I do not have the reference but I can certainly mail it to the committee if any of you wish to have it—there was \$9 billion in direct foreign investment in Canada and \$45 billion which was exported outside of the country.

0920

I think a tax structure within this province perhaps might address the question of giving some latitude to those profits generated in this province that can be directed into a commitment to Ontario and that way provide some incentive for more investment capital to be available to those entrepreneurs to want to generate product development within our province.

Finally, the observation I would make to the committee on behalf of the membership is that I really think the labour movement in this province and the people I represent view themselves as wanting to become a full player within the economy, and that does not mean employee stock ownership plans where in fact workers generate investment capital for a corporation and then, of course, have nothing to do with it or do not have any input in the decisions that are made about that corporation.

I think the model followed in West Germany is probably, to my mind, the most suitable for Ontario, and we should keep in mind the flexibility that an economy like that allows not only workers but employers. I would draw to your attention something I am sure that most of you know, that it was not too long ago that under the system in West Germany workers there, in concert with their employers, having looked at their competitive edge and the manner in which they deal within the global model, said, "We have to find a way to increase beyond where we already are in our training capacity and the effect that it has on our ability to

compete," and a deal was cut where workers gave up a fifth week of vacation and dedicated that to additional training. It is an enormous amount of training, even that one additional week on top of what Germany already does, when one compares that to the training that takes place in this province and in this country.

The point I want to make here, however, is that flexibility to get to that adjustment quickly within their economy could only come about in that the partnership was a real partnership between the main players within the economy, government, workers and employers, and that can work. When one compares Germany and its position in the European Community and Ontario's within the North American market, we can get to some of those objectives, providing that the partnership is in fact a true one and not one of simply tokenism.

Let me just conclude there in the short time that we have left and respond to any questions that anyone might have.

Mr Kwinter: I have a couple of observations and then I want to ask you a question.

I do not think it is valid whenever you are comparing the debt burden to compare Ontario with Canada; it would be different if Canadians were a separate entity and Ontarians were a separate entity. Canada and Ontario are the same, and the taxpayer who is carrying the weight of the Canadian debt is also carrying the provincial debt. I think it is valid to compare other provinces, because they are separate; we are comparing them. So I do not think that is a valid comparison.

What I want to do is talk about the debt. In this year's budget the cost of the debt is \$5 billion. Just to put that in context, that is more than this government spends on the ministries of Agriculture and Food, the Environment, Housing, Industry, Trade and Technology, Labour, Municipal Affairs, Natural Resources, Northern Development, Skills Development, the Solicitor General and Tourism and Recreation combined. Just the debt service costs more than all of that. That is \$5 billion this year. Next year the debt service, by the Treasurer's own calculation, is going to be \$6 billion, the year after it is going to be \$7 billion and the year after that it is going to be \$8 billion.

When you look at the budget, the total expenditures over the next three years are not going to increase at all in real terms. If you take the cost of the debt and you see what is left with inflation, it is going to be exactly the same as they are spending now in real terms, which means that by the year 1995 they will be spending more on their debt than they do on the Ministry of Community and Social Services, which is one of the big numbers.

How do you rationalize that? This is a projection that is showing a 10% increase in revenues every year, which I suggest is optimistic. This year the revenues were down over last year and I do not expect that there is going to be a 10% increase this year, which is what the Treasurer has projected.

How do you deal with your members? How do you deal with those people in society who are disadvantaged who would expect that in better times they will get more help, when in fact there is not going to be any money to help them because the only thing that is happening is the

debt service is increasing and that is it? How do you respond to your members when they complain about that?

Mr G. F. Wilson: First, on your opening comment about the comparison with the federal government, I can recall Mr Wilson, prior to the election of this current provincial government, speaking of his debt service being in the mid-30s. So it is a fair comparison to argue against those who have been the loudest detractors within the political forum of the provincial government deficit. It is a little bit like the pot calling the kettle black on this one.

Mr Kwinter: I agree you can compare politicians, but I am saying when it comes to the amount, we as Canadians have to pay both of them.

Mr G. F. Wilson: I agree. There is no argument about that. But what I was saying was, when the detractors federally are arguing about the amount of the Ontario deficit and you compare it to their own, surely there ought to be some principle which says that if you are in a more prejudiced position, you ought not to be arguing that point.

On the cost of service, I accept what you are saying about the escalation of the cost of servicing the debt, which are the projections of the Treasurer, but I guess the question I come to is, what is the alternative? You just cannot say that part of the population of this province disappears for a while when most of your costs are incurred in those social services that people require during bad times.

I do not agree with you that times are going to get better if we continue to do things as we currently do. I think unless we can find a mechanism to insulate ourselves, not in a traditional barrier sense, but rather engage in trade with the United States, which is our largest trading partner, admittedly, and to find ways, as other jurisdictions have done, to make ourselves less vulnerable to influences that come to our borders—I think that is achievable.

The argument I am trying to make on that point is that to continue down the road following the practices and the theories that we have put in place about investment and capital will not get us to a better position 5 or 10 years from now than we are in now. We will always be marching to the tune of someone else's drum. I think Ontario has the capacity, with its population and with the natural and human resources that we have here, to change that. I think we can get to something better.

What I am here to say to you and to others in the business community is that I am prepared to work, as a labour leader, with any business or organization that is prepared to make a commitment to this province. I have had it up to the gills with people who have come in, ripped off this province and left us hanging high and dry. I think there is a far more noble and practical pursuit that we can engage in, and that is to work together.

If you look at small-town Ontario, everyone who is in business in main street Ontario who is in the private retail sector or the private service sector is completely dependent upon the salary levels and the income of the people within that community. That is what they exist on.

Mr Villeneuve: Thank you for a very articulate presentation. Quite obviously you have done this many times before.

I have a little difficulty with a made-in-Canada recession. I have heard my government colleagues mention it at every occasion in the Legislature, when indeed the United States and Europe are going through a recession. We may have a made-in-Canada recession, but no one has ever shown me why it is strictly made in Canada, as some people would like us to believe.

None of us likes the GST, but of course the alternative was to leave the 13.5% manufacturers tax on. You did not touch on that one.

What I would like to know from you, sir, is that with the very large increase in provincial deficit—\$9.7 billion this year and a total of some \$35 billion additional—do you feel that this will make us more competitive with the US or with other parts of the world which we have to compete in? Do you feel this will indeed reduce our taxes? We are the highest-taxed jurisdiction in North American right now. Do you feel additional deficits will help?

0930

Mr G. F. Wilson: I do not think you establish the health or the wealth of an economy based upon singularly focusing upon the deficit. Ontario was in a far better position prior to the signing of the trade agreement by the federal government. You do not put in place a policy which makes capital more mobile within a North American, western hemisphere market and give it more leverage to say to us, "This is the cost of doing business in Ontario." In other words, we have to accept their agenda.

I think if you compare Ontario prior to the trade agreement and measure the effect of the trade agreement—and we argued this for three years across this country, that Ontario would be the economy that would be ravaged, because of the structure of our economy, under a trade policy being advanced by the federal government. If you track back, why do we have a large deficit federally? It is because Mr Wilson and Mr Mulroney, as a direct measure of policy, offloaded approximately 30% of the national debt into foreign hands. Before that, we could deal with it; it was just money we owed each other. We could change the rules and push the buttons and move the levers.

Now we are faced with a situation where we have to be responsible to foreign investors to the extent of 30% of our national debt. That means we have to guarantee they are going to get the return that is promised to them when they invest in this country, and that means we have to have a high dollar. You ask any Canadian businessman or any Ontario businessman who is trying to export into the US market from the mid-range and small-range manufacturing in our province how they are making out with a high buck. Most of them are having trouble hanging on and many of them have already gone.

So it is the question of trade policy that is the essence of the health of an economy rather than the question of what the current deficit is, which can be addressed once one finds a way to establish an economy that is healthy by retiring the dependence on the expenditure side that people have and being able to garner further revenues for the provincial government.

Mr Villeneuve: I suggest to you, sir, that indeed the province of Ontario is going in the very same direction as the federal government and we will be faced with the same dilemma much sooner than we want to believe.

Mr G. F. Wilson: I do not think so because I really do not think this federal government has much of a life left in it.

Mr Christopherson: I would like to follow up on a comment you made regarding your desire to work with business, and particularly those businesses that are prepared to make a commitment to Ontario. We would be interested in hearing your opinion on what this government should do and what actions we can take that would foster that relationship and begin that process of co-operation, to start it happening.

Mr G. F. Wilson: I think part of the process is already under way. To give credit where it is due, it was begun under the previous provincial government; that is, the Premier's Council which has now been rejigged and broadened, I think, to include more interests within our society around the table. It is a good forum between business, workers, academics, scientists and others to discuss a direction for Ontario.

I think what has to come from the provincial government is a signal that it sees workers not as part of the problem but rather part of the solution. I suggest that has been one of the things that other governments, in Europe for example, have recognized, that workers can be part of the solution and workers' unions could be part of the solution too, and have been. We can provide a source of capital.

If I could just give you a quick example of that, if I am a worker walking down the street in Sudbury or North Bay I would be more apt to want to invest in a community development fund that can be utilized to provide investment capital for entrepreneurs in that community as opposed to buying an RRSP in the Royal Bank, where that money may well find itself being invested in a shopping centre in San Antonio, Texas. To me that makes no sense whatsoever.

The provincial government ought to do all it can to bring together the players who have a commitment to this province. When I look at who that is, it is the people who live here, who expect their children are going to live here in some fashion, who are going to conduct their business here. If that is true, we have to recognize that in order for us to survive in Ontario, we have to bring those people together in a partnership which recognizes that our first objective is to generate wealth for the province and, concurrent with that, talk about how that wealth is going to be distributed fairly throughout the province. If we can get to that, I think we will be in a much better position for future generations in this province.

The Chair: Thank you for your submission.

CORNWALL ENVIRONMENT CENTRE

The Chair: Next is the Cornwall Environment Centre. You have one half-hour for your presentation.

Mr Milnes: My name is John Milnes and I am an environmental scientist working as chairman of the public advisory committee for the remedial action plan in Cornwall.

Perhaps I should explain to you briefly that an environmental scientist is someone who has studied environmental impacts balanced against economic capability to remove and/or prevent those impacts.

The area of concern for which my committee is responsible is the St Lawrence River area at Cornwall, as designated by the International Joint Commission and managed under the Canada-Ontario agreement.

Again very briefly, I will describe the St Lawrence River area of concern. It is quite simply a swelling in the river commonly known as Lake St Francis. It is at the confluence of three nations—Canada, the Mohawks of Akwesasne and the United States—two provinces of Canada, Quebec and Ontario, and New York state of the United States. It could be said that it is an extremely complex jurisdictional area in which we are working.

Over time, the aquatic ecosystems of the area have become impacted by contaminants, metals and chemicals, from both upstream and local sources. The degree of endangerment might best be seen through the United States Environmental Protection Agency national priority list, or NPL. On the NPL, this area is listed as 48th. To put this into perspective, perhaps it should be stated that the infamous Love Canal, a much more publicized environmentally endangered area, is listed at number 200 on the NPL. The degree of endangerment thus places this area as being 152 places worse than the Love Canal.

It is easy to talk about economic impacts and depressions, but they really do not mean too much until you have been grossly affected by them. Here in Cornwall, the people really know what economic instability is all about. They have had to live with it for so long.

Many politicians see the Ontario north as being constantly depressed, and well it may be. Eastern Ontario, the forgotten corner of the province, has very similar characteristics. However, there is a compounding factor which makes matters worse. Eastern Ontario, and particularly the Cornwall area, is constantly on a economic roller-coaster. This perpetually throws the economic stability of the area up and down according to the winds of economic change occurring within the province or country.

It is even further compounded because the area is at the mercy of two or three large industries. Each of these industries creates area economic instability by virtue of its own reliance upon export markets to sustain production. Quite obviously, all this has a serious psychological and economic impact on the people of Cornwall and area. When we relate this to the 1991 Ontario budget, there would appear to be little for us to cheer about. However, I believe this budget does provide some hope.

The critics, particularly the opposition politicians, as one would expect, have been widely opposed to such a large deficit being imposed upon the people of the province. In my opinion, it is simply a judgement call which will be proven right or wrong by history. In reality, we all borrow money, whether as ordinary citizens, farmers, small business or large industries. The gamble is the amount which we borrow and our ability or inability to discharge the debt.

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When we see the fiscal performance of past provincial governments, with their small-borrowing approaches and inability to build equity in the good times, I can only believe it is worth the gamble to try another approach. My hope is that we have not begun a process which will be constantly perpetuated. Of importance is the need to build up financial resources when we are in good times. Past provincial governments have failed to do this.

When an incoming government inherits a large debt and enters into the process of governing at a time when the entire world economy is depressed, it takes innovative methods to maintain important services and build growth to enable us to climb to new economic thresholds.

The government has indicated it will be moving on a number of fronts to secure and create well-paid jobs. Here in Cornwall, we would be just delighted to have jobs, any kind of jobs.

We have tried to help ourselves through the fact of our environmental problems. We have recognized there is a need for more and more environmental research. We have even discovered that nowhere in the world are studies undertaken to specifically address research in large rivers. We have proposed that an institute of environmental sciences dedicated to large-river research be located here in Cornwall. There can be no question that Cornwall needs something more than an industrial base if it is to sustain itself in any way. We are hopeful that the provincial government will see this as being part of its strategy to "provide secure and well-paid jobs" for the people of Cornwall. This would tie together the economy and the environmental approaches of the government and in effect kill two birds with one stone.

Perhaps I might make comment on the environmental sector of the budget, since I do have some particular concerns with the approaches being adopted.

When we talk of all those good things such as the 3R program, we are only talking motherhood matters. We need innovative approaches if we are going to succeed in the areas of both the economy and the environment. I do not believe the environment portfolio is being sufficiently innovative. It must be treated to innovative strategies similar to those being applied to the economy by the Treasurer of Ontario.

To increase provincial taxes on gasoline and diesel fuel is to severely impact those who can least afford it. Gasoline taxes do not simply mean increases in personal automobile costs; they mean compounded costs across the entire stratum of living. Increased fuel taxes are a precursor to overall cost increases throughout the entire spectrum of purchasing. This can only badly damage the economic structure of the province and at the same time hurt the poor in a disastrous manner. Further, such economic imbalances create industrial economic incompatibility to export Canadian products.

The government has tended to protect the wealthy with its unsound environmental practices related to gas guzzler taxes. To simply double the gas guzzler taxes is bordering on being unreasonable. We should be imposing a specific gas guzzler tax aimed at changing environmental behaviours. It is my belief that automobiles with eight-cylinder engines,

excluding trucks and vans, should carry a \$2,000-a-year large-car tax.

In a similar vein, the matter of gasoline-related costs might well be seen in the same light as the decision of the Treasurer to go with a large deficit strategy. It is necessary to try something different. Past Ontario treasurers have heaped taxes on gasoline and diesel fuel to the point where this forced Canadians to go to the United States to buy their fuel. My different approach would see a real price imposed on those rich enough to pay for impacting on the environment through a large-car tax.

It is wrong to use something as a taxable item upon which the economy of the province depends in order to be competitive in the export market. In fact, such is the state of our fuel taxation. It is sorely impacting on the internal markets of the province, and of the country for that matter.

I would reduce the tax on gasoline and diesel fuel not only to assist the economy generally but also to ensure that those who cannot afford the high gas prices do not subsidize the style of living for those more affluent members of the public. This would truly be reducing disparities and ensuring that the costs of economic adjustment are not being borne by those least able to shoulder the burden.

Still on the matter of budget influences on the environmental programs, it would seem to me quite the wrong time to be investing \$48 million for the Let's Move transit expansion program. Until we have educated the public to be more receptive to being transit minded, we cannot hope to achieve a transit-oriented society.

Such a process of changing behavioural patterns of people has to be a very long-term goal. It is premature to be trying to increase transit systems until such time as the public is ready to accept the concept. It would seem to me there are more important economic issues to be considering.

The three-part plan to address the impending waste management crisis also causes me great concern. Establishing a new public sector agency to find and establish new landfill capacity is totally degenerative and unacceptable thinking. There is no way we should even think of new landfill sites. We should be earnestly looking at the alternatives.

The most logical alternative is to extract those materials we can economically recycle and the balance of our waste should then be turned into energy production through some form or process. It would be a matter of poor fiscal and environmental management to perpetuate the use of landfill sites. We must look at the alternatives and in so doing we must take our heads out of the sand.

The old methods of waste destruction, such as incineration, have been greatly improved. While the old incineration methodology caused so many environmentalists to shake in their boots, the skill development in incineration technology makes this form of waste management state of the art as well as being environmentally and fiscally desirable. There are presently in existence European incineration processes which are both environmentally safe and energy producers, turning waste into electrical energy.

These processes could be installed by private companies charging a per-ton rate for disposal and not costing the province anything to run. Municipalities will be paying for

the services they need in accordance with today's practice of making the user pay.

Unfortunately, it would seem our Minister of the Environment is opposed to incineration processes except in the case of hazardous waste destruction. It seems to me that ordinary household and industrial wastes are less dangerous than hazardous wastes. Reducing, reusing and recycling are the products of thinking from the last provincial government and we need to infuse new thinking which will take us into the new realms of environmentalism coupled with economic capability, so that we might really move towards sustainable development.

On the energy front, we should be looking at approaches which have been proven successful elsewhere. The energy-efficient-message approach is unproductive. What are needed are environmental actions consistent with socialist practices, making available those energy-efficient lamps at no cost rather than causing the low- and fixed-income people to be denied the chance to purchase a means to lower energy costs. How can any pensioner or welfare recipient afford to buy the new energy-efficient lamps at \$20 to \$25 a piece?

To briefly visit another subject, I would like to touch on the matter of education and the proposals of the government for education. If we are truly working towards greater equity, then we must recognize the inequity of educating people for something they cannot have. These are the outdated approaches of past governments. We must not continue to fool people into believing we can create a return to the labour-dependent days. There can be little doubt in the thinking mind that the need for physical labour is constantly decreasing. For every 100 jobs that are lost today, we can expect possibly five to become available again.

We have moved firmly into a technological era and are rapidly closing in on a new time frame which might best be described as a technocracy era wherein the technology we already have is applied to the welfare of mankind as a whole.

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With this in mind it is most important we stop wasting our financial resources on the traditional teaching approaches, including the retraining of unemployed persons. What on earth is the use of retraining when there are still no jobs available? It is a matter of good fiscal management to recognize where to invest. In my opinion, it is total mismanagement to continue investing in the present education format.

In order to leave time for questions, I will briefly summarize. My greatest concerns are fiscal waste associated with the environment, namely, not rethinking our positions relative to improved technologies involving waste management; and education, chasing shadows through continuing with outdated educational approaches; and energy conservation, using approaches which deny the poor the access to monetary savings from energy-efficient lamps and appliances.

I will close my presentation saying I believe the government may generally be on the right track with its fiscal policies. The phrase "sustainable development," commonly associated with the environment, is also applicable to government management of our financial resources. I have a sense our financial resources are in good hands.

Finally, this committee has a golden opportunity before it. You have visited a city which is economically depressed. We have found we are in a heartland of potential development, namely, our hopes for an institute of environmental sciences. We seek your support for our concept in the hope that we can put economic recessions behind us once and for all. At the same time we seek to put Cornwall, Ontario and Canada on the world's scientific map. We are ready and willing to face the challenge before us, but we need help. Please help us, the people of Cornwall, to help ourselves.

Mr Villeneuve: John, thank you very much for a very refreshing presentation. You did not attack federal government or provincial government policy, you were positive, and in those areas that affect this community the most, fuel and taxes for instance, which is our biggest problem right now, incineration, waste disposal and education. Those are three major topics.

On fuel and taxes, the main problem we have, the cross-border phenomenon, is because fuel is so very much cheaper, particularly in Akwesasne. We have seen this government not only raise the deficit but raise the taxes on fuel. The Americans are putting two million bushels of grain every day into the production of ethanol, which we know would reduce the greenhouse effect by some 40%. This provincial government has still resisted that. I want to ask you about that and about incineration.

On incineration, to tip a ton of garbage in these communities costs you between \$120 and \$140 a ton. As a farmer, I cannot get \$100 a ton for corn, grain or barley. What are they saving this land for, garbage disposal sites? The economics would indicate that is the best use right now. I would like you to comment on that and on education. You, as a long-time educator, accept that the system is not working right. Could you comment on those three very important aspects of your presentation?

Mr Milnes: Certainly. In the first place, I believe we have to be more innovative in our approaches to the environment. Simply to keep dumping waste materials into holes in the ground has to be unproductive. It is not only a waste of land. We take for granted the huge area we have in Canada, being the second largest country in the world, that we can use or misuse the land at will.

The second factor is the leaching capabilities of anything we dump into that hole in the ground back into our ground water and hence into our human frames. It is absolutely unacceptable to be using those processes which we felt were okay in days gone by when we had less knowledge of environmental impacts.

To my mind, we have to avoid the strategies being put out by environmental activists, extremists, who are trying to influence the direction of government through their activism and their extremism. We have to have a balanced, moderate approach to environmental costs and environmental involvement, because if we are not careful we are going to actually deny environmental movement forward simply because it is too expensive. We have to look at the alternatives.

I recently visited a plant at the invitation of a company to make an environmental assessment of that plant. It was an incineration plant. I know our provincial minister is opposed to incineration of waste. I believe it is the responsibility of all politicians in the provincial government to attempt to sway the thinking of that minister to a more rational approach.

I believe personally the minister has been influenced by people who are close to her who have backgrounds from the extreme environmental point of view and I think that is dangerous. I went to Connecticut to see this particular plant bitterly opposed to incineration processes simply because I was versed in the old approaches of incineration, the old practices. The plant I visited was four years of age and I went around that plant with a fine-tooth comb. I could find no leaks in the plant anywhere at all, I could find nowhere where they were covering up, and the whole of the facility was the equal of the Transport Canada Training Institute federal government building in Cornwall. Anyone could be proud to have such a facility.

There were nine people from Canada on that occasion. I was perhaps the only person asking specific questions of a scientific basis. The questions I was asking were relative to fallout from the stack, emissions from the stack. I looked at everything including the distance from the stack, the control of emissions, the recording of emissions, the topography influence on those emissions to their fallout. Not only did I get all the verbal answers I requested, since then I have had a substantive amount of written documentation from various organizations, various knowledgeable bodies, confirming what I felt to be a very thorough and scientific process.

On the matter of education, I have, as Mr Villeneuve has indicated, been an educator for many years and I have been very concerned because I have been one dealing with learning disabilities. It is my opinion that we are on the wrong trend when we continually perpetuate that which has satisfied us since the evolution of the religious orders creating our education schemes.

I think we have to go into a new mode of education where we go into a twin-fork approach. The twin-fork approach would take us to providing education for those who are going to be the dollar earners and those who will not be the dollar earners and recognizing that both have a right to an education base. We would have to build bridges between those two entities to allow for transfer at different educational stages in their development. But by and large we have to educate based on the premise that we no longer hope for full employment or anything close to it. We are fooling ourselves and we are fooling society as leaders of the society when we try to make people believe that jobs are around the corner.

Mr G. Wilson: Thank you for your presentation, Mr Milnes, I found it thought provoking. I agree with your approach that we have to be moderate in the things we come up with. I must say the last comment seemed to be a bit immoderate, and tying it to your comments about cutting off training seems like a rather immoderate approach as well, especially to those people who need training. To drop them, perhaps, without at least suggesting the alternatives

looks a bit extreme. However, you also could not include everything in your program.

I want to pick up on a couple of things you said, though, about the 3R program being a motherhood issue. I am not so sure we are at that stage yet. The thing about incineration is that if the 3Rs took root, then there would not be so much to incinerate, and some of the programs you have in mind that would be the result of incineration then would not be there. I think the whole idea is that we want to conserve our resources. Incineration does not allow for that. In fact, it encourages the opposite; there seems to be no problem then with disposing of our resources because we can always burn them. I just would like to get your idea then on the education that would be needed, because I see a difference here. You think we genuinely have to educate for conservation and you say transit is not at that stage yet, that people do not accept the need for mass transit, which sounds to me like an educational issue, but on the other hand, you seem to be removing the need to educate on things like the three Rs, so could you just clear up that confusion?

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Mr Milnes: Let me say that when I talk about retraining, I have gross concerns, particularly in an area like Cornwall, where we may take 10, 12 or 15 people and retrain them for an electrical trade when there may only be two jobs currently available for electricians and the projection of electrical opportunities may not exceed five. Then because of the economics of education today, I feel we have to have classes of a size which are economic, so we educate 10, 12, 15, 20 people in a retraining program to give them an opportunity to have a skill development sufficient to deal with that trade need. I think that is an unfortunate situation.

I believe also in many cases we have to recognize that the people who are unemployed at this time may not be suitable for retraining for other trades. It is a gross assumption that people have a capability to diversify their skill ability and their intellectual ability to varying sources and various modes. I have a very strong conviction that we are doing the wrong thing to make that assumption. So many people are going through the process and failing. What we are doing is generating failure rather than success. I think it is better to acknowledge that we cannot educate some of these people for doing that which we would like to see them do and say there are no jobs available for them, in the first place, or the limited number of jobs will not cover all the potential schooling we are going to give and, second, the incompatibility of people to flex, particularly at a later stage in life.

Mr Cleary: I thank you for your presentation, John, on behalf of your committee. I know your committee has been working hard for a considerable time now. I am pleased my colleague had mentioned the problems we are having with fuel tax in the area and the problems it is causing us. I was pleased that your group had the opportunity to meet with the federal government. I was a bit disappointed that we did not have the same opportunity with the provincial government, but we did have a brief meeting with Richard Allen, who promised to get back to us later on. Hopefully

that same meeting will happen in Toronto and you will be able to make the same presentation as you did to the federal government. I know the Chairman is eyeing us here for time, so I guess I had better cut it off at that.

The Chair: Thank you for coming before this committee with your presentation. It was very informative and we will be studying it more closely. They were different viewpoints.

ONTARIO HOSPITAL ASSOCIATION

The Chair: The next group to come forward is the Ontario Hospital Association. Good morning. I would like to welcome you to the committee. You will have one half-hour for your presentation. Near the end try to keep some time for questions and answers from the three parties. If you would not mind identifying yourself and your position for the purposes of Hansard, you may begin.

Mr Birkness: My name is Brian Birkness. I am the volunteer chairman of the Ontario Hospital Association. With me is Gordon Cunningham, the president of the Ontario Hospital Association. We have local representation here with us today: Clarence Marshall, the chairman of the board of Brockville General Hospital, and Viviane Campbell, the director of finance of Glengarry Memorial Hospital.

Thank you, Mr Chairman, for the opportunity to appear before your important committee to make the case for a sounder approach to hospital financing in the 1990s. We hope our remarks here today will make a worthwhile contribution to your deliberations and those of your fellow committee members on how best to budget for the many needs of the people of Ontario. It is no small challenge you face, as we who face budget dilemmas in our areas of service to the people can confirm. It does not look like it will get any easier in this decade for you or for us, but the decade's budget woes where hospitals are concerned can be reduced through the application of four key principles. That is the key message I want to give to you today.

What are these principles? First, there should be a recognition that hospital administrators have clearly demonstrated they know how to manage the system. They have continued to meet public expectations for increasingly complex quality health care in the face of shrinking financial resources. This can only be achieved through good management and a spirit of innovation.

Second, hospitals need a commitment from the province to review the role of hospitals in our health care system so that their maintenance and development can be approached in a planned way with priorities and expectations clearly spelled out. Good managers need to know what is expected of them not just from year to year, but from month to month. We all have to agree on a new or revised definition of what a hospital is, a definition worked out among government, hospitals and the public.

Third, boards and administrators need a more rational approach to funding hospitals, starting with announcements of allocations and changes in funding formulae as early as possible in the budget process. Current ministry funding practices make it almost impossible for hospitals to budget with the degree of accuracy or confidence

required to meet the current needs and the innovations required by rapid advances in health care.

Fourth, hospitals cannot operate without a long-term planning framework, of which capital funding is a major component. We need an indication of the government's long-term plans for capital funding.

Summing up, hospital administrators are saying: "Give us the tools and we'll do the job. The public will get the quality health care it deserves and the province will be assured it is getting the best value for the health care dollar." That appears to me, and I hope you agree, like a pretty good prescription for the relief of some of the budget headaches we face together in the next decade.

We are here to rally support around two central issues: first, the need for hospital and health care funding to be approached in a more planned and considered fashion and second, that government thinks through and provides for the costly burdens it places on hospitals and others before introducing new programs and initiatives. Our association predicts that the 1991-92 fiscal year will show serious shortcomings on both these counts.

Desite the ministry's instructions to hospitals to bring in balanced budgets, we already know that many hospitals across the province, despite herculean efforts to do otherwise, will be projecting the unwelcome experience I spoke of earlier. For instance, 17 chronic care hospitals are projecting deficits ranging from \$300,000 to \$5.7 million per hospital. The only way to balance budgets is to cut beds, lay off staff and curtail services. All these actions have serious implications for the delivery of health care to the people we serve.

There is more than dollars and cents behind the bookkeepers' columns and the accountants' figures when it comes to hospital spreadsheets. There is human deficit behind the numbers, one that is measured in terms of unmet health needs and one that is also measured in the stress and professional compromises imposed on health providers whose ideals of compassionate and competent care are continually lessened by budget cuts and an ad hoc approach to hospital financing. There is no pride to be found in balancing a hospital's books if the hidden deficit is at the expense of patient care, not in a province as fortunate as Ontario, where people have come to expect the highest quality of health care and have been willing to pay for it through high taxes.

We are not just saying, "Throw more money at us and all will be well." Of course funding would be welcome, but we also appreciate the province's flat revenues in this recessive period. We also are fully appreciative of the fact that the 9.5% granted hospitals this year was larger than hospitals in other jurisdictions received and larger than that of many of our companion public services in Ontario which also depend on the public purse. We thank the government for that, but the fact is that hospitals are still left \$368 million short of the money they need just to hold the rocky ground left behind by years of similar shortfalls.

Hospital costs are rising because hospitals are expensive to run, not because hospital costs are out of control. In the last decade, the hospitals' share of the global health dollar has shrunk from 48.1% to 43.7%, while payments to physicians

and the Ontario drug benefit plan continue to expand. Hospital funding grew at an average annual increase of 11%, compared to 13.4% for payments to doctors and 19% for the drug plan in the 10-year period from 1980-81 to 1990-91.

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The seeds of hospital funding problems were first sown when the federal government decided its massive deficit had to be reduced and began the gradual reduction in transfer payments to the province. This approach forced similar approaches at the provincial level. Rapidly rising health costs, of course, have been the big target. Sure enough, when the squeeze began, hospitals trimmed where they could and began to introduce many cost-effective and innovative systems in an attempt to maintain the quality of care and the compassionate level of service demanded by Ontario's sophisticated health consumers. We saw trends developing towards more outpatient treatment and day surgery to avoid costly hospital stays. We saw hospitals banding together under OHA auspices to develop purchasing programs to further cut costs. We saw community hospitals signing creative support agreements, ending duplication of services in some areas and encouraging the development of centres of excellence in others.

These and many more innovations came on stream as trustees and administrators accepted the challenge of running hospitals in a more efficient and cost-effective manner, a challenge made all the more difficult because of constant shifts in funding policies and a lack of overall planning at the provincial level. The facts speak for themselves. Since 1975, hospitals' share of the overall health expenditure has decreased by 14.6%, not taking inflation into account. Yet compared to 1980, hospitals last year cared for 96.3% more Ontarians in outpatient clinics and 5.1% more Ontarians as inpatients. These statistics speak to growing efficiency and the competent way hospitals now run their affairs.

Yet still they face massive funding problems and deficits as fact of life. Hospitals are hurting and if they hurt, so do the people who turn to them for professional and compassionate solutions to their health needs. While trying to do their best with less, and often succeeding, hospital planning is often sent off course by the imposition of new legislative programs and initiatives without adequate funding for their absorption into an already strained system. I speak of such things as the employer health tax, occupational health and safety legislation, pay equity, rising costs of unemployment insurance, workers' compensation and the CPP, the goods and services tax and similar initiatives. The value and worth of such programs are not being questioned. Hospitals are as socially conscious as anyone else and play their part to ensure the success of any program designed to improve the commonweal, but we do question the imposition of new cost burdens on hospitals without considerations of how hospitals can pay for them.

Recent legislative changes have delivered a series of shocks that now see our hospital system grappling to meet expenses from strained and sometimes non-existent resources. Pay equity is but one example. While they are fully supportive of the goal of the legislation, hospitals are still trying to come to grips with the budget impacts of this program. The government has announced a \$125-million

fund to help public service bodies finance the program costs. For the hospital industry alone, pay equity represents additional costs of some \$50 million annually. Yet hospitals have been told by the Ministry of Health it will not apply to Management Board of Cabinet for its share until the latter part of the fiscal year.

The uncertainty about what funds will be available to hospitals for pay equity makes budgeting extremely difficult. Many hospitals also are facing difficulties with the settlement they reached with the Ontario Nurses' Association. While it was a costly settlement, it was one that was obviously needed to ensure a good supply of highly qualified nurses and to pay them equitably in comparison with other professionals. We are still waiting for the results of a comprehensive ministry survey to determine which hospitals are particularly severely affected. It is essential that those hospitals receive additional funding for this fiscal year. Hospitals are now close to halfway through the fiscal year and none knows with any clarity how much money it will have. But the impact of the agreement does not stop at this year. There also may well be an effect on negotiations with other unions and possibly on the entire salary and wage structure of hospitals. These costs must be factored in as government begins work on the next budget exercise. Failure to deal realistically with these inevitable increases will see further service cuts, which will be damaging to the quality of health care in communities across the province.

Right now we are deeply concerned with another government initiative, the Ministry of Labour's health care facilities regulation under the Occupational Health and Safety Act. Our preliminary studies indicate that the cost of implementing the new regulations is upwards of \$150 million. Increases in annual operating costs are expected to be around \$13 million. This would represent the most significant government-related cost ever imposed on the hospital sector, and to date we have had no indication what funding the government is prepared to give, if any, to help hospitals cope.

Naturally we are worried, given the funding history of similar legislative decisions. We are as anxious as government and the labour movement to improve working conditions for workers in the hospital sector, but given the strong signals that hospitals are going to have to make do with less, we maintain the new regulation must be phased in, and come with the substantial operating and capital funds needed to make it a workable reality. The Ontario Hospital Association is fully prepared to work with government on a plan to phase in the regulations in an orderly, manageable way.

Hospitals have little flexibility in generating additional revenues. Government must be prepared to pay the costs of the social and service improvements it deems are needed. This is even more critical now that hospitals have become more cost-effective operations. Innovation and creative management will only absorb so much; after that come more bed closures, staff layoffs and reduced spending.

Returning for a moment to the issue of generating revenue, let me remind you that many hospitals have taken advantage of the business-oriented new development program introduced in 1982, which has encouraged them to

develop revenue-producing programs and services, such things as parking lots, rental space in their facilities for retail activities, professional offices and other innovative ventures. As many of you may know, the Ministry of Health recently placed a moratorium on this program pending a policy review. The minister indicated concern that some schemes being suggested by hospitals were putting hospital assets in jeopardy.

We think review of these programs are healthy, and OHA is pleased to co-operate with this one. Clearly there is a need for guidelines and policies that will ensure the protection of hospital assets, but we urge the government to guard against discontinuing a program that has opened the way for some hospital to finance some of its operations through innovative programs, thus reducing the call on the public purse. The elimination of BOND would just add to the budget problems hospitals now face.

Lest this presentation seem nothing but a catalogue of complaints, let me hasten to add that the Ontario Hospital Association has cordial relations with the Ministry of Health and that we work in partnership at all levels within the ministry to resolve many issues. There have been positive changes. One is the transitional funding initiative, which attempts to relate funding to the actual level of care and service delivered by hospitals. Hospitals are working closely with the ministry on the development of these new funding formulae, which hold the promise for a more equitable distribution of funding across the system. But even in the transitional funding program, late payments compound hospital budget problems and hamper an otherwise promising program.

Concerns over pay equity, transitional funding, the cost of government legislation and policies and other budget difficulties I have reviewed here form the heart of a special session attended by more than 150 board chairs and CEOs in May of this year at OHA. These men and women express their frustration at trying to budget in the face of so many unknowns and share the difficult decisions they have faced about having to make further service and staff cuts in their already lean operations. I told that gathering that I felt hospital financing had reached a crossroads in Ontario, and I repeat that sentiment here. OHA believes, and so informed the minister in a June 20 meeting, that the time has come for a much greater emphasis on planning in all areas of health care, and specifically for hospitals.

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The role of hospitals is obviously changing, along with commitments to adequately finance hospital capital and operating needs. It should not be allowed to happen by default, risking the loss of valued resources and services and leading to impaired health care for the people of Ontario. The people of Ontario and the thousands of men and women volunteers who built one of the finest hospital systems in North America have a right to see their legacy protected and enhanced. OHA and its members are ready to work with government and other stakeholders to ensure that any transition preserves the best and builds to an even higher level of service to the people of Ontario.

Hospital voices must be listened to. Some advocates of the community-based approach see it as an all-embracing

solution to mounting institutional costs and are not prepared to listen concerning the very real role hospitals now play in caring for this sector of the population and the even more vital role hospitals will play in the future in a well-balanced continuum of care.

The government now intends to conduct a review of chronic care facilities. While we heartily endorse a review of chronic hospitals, we are extremely concerned that the new terms of reference for the study do not include site visits to hospitals. In fact, data will merely be gathered through statistics and random sampling. The terms of reference as laid out are unacceptable to OHA and to the Council of Chronic Hospitals of Ontario. Hospitals cannot be ignored. If a true examination of the care-giving role of chronic hospitals is not undertaken, the study will misrepresent the needs of the community and waste the government's already strained funds.

Modern chronic care hospitals are not the warehouses of the past. They are places of advanced, compassionate care where research leads to many new breakthroughs, improving the quality of life for the elderly and disabled, both in the community and in institutional settings. They are a vital element in the spectrum of a comprehensive long-term care system and must be adequately funded for operating and capital.

I should underline that OHA and its member hospitals across the province welcome the move towards community care. We are more than willing to adapt hospital services and programs in a rational, well-planned way to facilitate a more enlightened approach to caring for the disabled and the elderly. Hospitals will always have a vital role to play in the continuum of care.

As the government outlined in its agreement with the Ontario Medical Association, a joint management committee will be set up to examine health care practices and relocation of health funding. These are serious matters that are far beyond the scope of physicians alone to deal with. They involve all providers and consumers. It is imperative that OHA be a partner in the process that will have a major impact on hospital management and operations.

We recognize that the entire health care system, along with the hospital sector, is in a period of turbulence and change. Governments, health care providers and the public are scrutinizing expenditures to ensure value for their dollar and a high quality of health care. Hospital boards and CEOs have been no less diligent in that scrutiny and have met the challenge in innovative and productive ways. They are equal to the challenges the future presents, given the tools, resources and clear directions that form the bedrock of good management practices.

In conclusion, thank you again for the opportunity to make the case for Ontario's hospitals before your committee. We hope our remarks on the need for a new look at the role in financing of hospitals and the need to think through the cost implications of new programs on the system have widened public understanding of the very real dilemma hospitals face.

We also hope we have indicated there is a large fund of goodwill in the hospital community. We ask only that we be listened to and consulted. We are ready to sit down with

all sectors of the wider health care community to reshape the system to meet the changing needs of the people of Ontario into the next century.

Mr Christopherson: Gentlemen, I thank you for your presentation. This, I believe, is the third opportunity I have had since being in office to meet with your organization and talk about your concerns. I suspect we will continue meeting for many years to come on this important issue.

As you know, we deliberately, in our budget, did not flat-line transfer payments to our funding partners, which has been the approach in the past to recessions and tight monetary times, particularly with special emphasis on the health sector, education, municipalities, boards of education. However, what we have been hearing from mostly business groups—but not all business groups, some individuals—chambers of commerce, is that the reason we have a deficit in this province is that the NDP government did not have the political courage to bite the bullet and just say no to groups such as yours and municipalities and others. In fact, a number of them have come forward and said that what we ought to have done and should be doing is a 10% to 20% cut across the board in every area. The basic premise for this is that the idea that we should spend money we do not have is unacceptable and we ought to be looking at the bottom line. That is the argument that comes forward from those groups.

As you are one of the recipients and benefactors of the approach we have taken, I would like to hear what your response would be to those who make the case to us that this is the road we ought to be going down.

Mr Birkness: We would be pleased to meet with any business group and show it how funding has been reduced to the hospital sector and how the hospital sector has been coping with that and the kind of management capability we have in hospitals to provide the services that have been demanded by the citizens of this province. If they are prepared to cut services and cut beds, we will also be prepared to show them what the effect of that kind of reduction will be.

In this province what we want to do is find innovative methodologies of delivering those services, hold the line on our cuts in funding for hospitals, and retain and maintain the quality health care service we have in this province. I would reiterate that we would be more than pleased to meet with any one of those business groups that come before you and challenge what Ontario hospitals are doing in terms of providing management in their hospitals.

Mr Kwinter: What impact does technology have on your budgets? I am thinking of things like magnetic resonance imagers and CAT scans and whatever is coming around the corner next week or next month. How does that impact on you and what kind of pressures does that put on you?

Mr Birkness: Of course technology has substantial impacts on hospitals. There is probably not a hospital board in the province that would not want to have the very best technology in its hospital. The truth of that is that Ontario hospitals have not been able to keep up with technology, and I do not have to go through the comparisons of the technology that is available in the state of New York

compared to the technology that is available in hospitals in Ontario. Nevertheless, I believe the citizens of Ontario, the patients in our hospitals, have the technology that is required available in the province as required and as necessary. There are large demands to keep up with technology.

Our doctors are coming out of medical schools with new and better skills, accustomed to using this new technology, and are demanding that the hospitals they go to have that technology available to them. So these are some of the problems that hospital management has to deal with, and we also have to clearly make fair determinations of where that technology should be available.

The other side of that coin is that some of the technology has allowed us to remove inpatients and treat them on an outpatient basis, such as arthroscopic surgery where people are coming in as day patients. It is just amazing the technology that has been developed in the last 10 years and how hospitals have changed. We see that almost 97% increase in the amount of outpatient services and a great deal of that is due to this new technology.

So technology to us is a boon, and on the other side it certainly increases the tremendous demands on finances for hospitals and on capital funding, which of course we are not receiving.

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Mr Sterling: I am always amused by the New Democratic Party in terms of drawing the health care question into the final question when you are going to go to your constituents as to whether or not you are going to spend more money to take care of them, because probably the health care system would be the last social service that any of my constituents would give up.

However, we now find that taxpayers in Ontario work for over seven months to pay their taxes and are left with about five months to pay for their own discretionary income, and therefore we are caught in a problem here. You cannot go on for ever justifying more and more services to the people if in fact we are now working seven months for the government and five months for ourselves.

You mentioned in your presentation that the increase to you this year by the government to the hospitals was about 11%, I believe your figure was. If you took out the government-imposed programs, be they federal or provincial, what is the real increase to the hospitals this year? Do you have that figure?

Mr Birkness: The general economic adjustment that we requested was a 9% increase and what we got from government was a 6% increase. The balance of the adjustment that was a total overall of 9.5% was a Ministry of Health formula adjustment of 3.5% that was provided for hospitals for changes in health delivery services for a variety of different programs, but the economic adjustment basically was 6%, if that was your question. We got 9.5% actually.

Mr Sterling: And your mandated costs were what?

Mr Birkness: Our projected requirement was 15% to meet the general economic adjustment of 9%, the Ministry of Health formula of 3.6% and extraordinary adjustments, which included the employers' payroll program and other programs such as that, of 2.4%. So in order to meet the

government programs and an economic adjustment, we needed 15%, and received 9.5%.

The Chair: I would like to thank you for your submission to this committee.

ONTARIO SECONDARY SCHOOL TEACHERS' FEDERATION, DISTRICT 21

The Chair: The Ontario Secondary School Teachers' Federation, District 21, come forward, please. I would like to welcome you. You will have one half-hour for your presentation and in that one half-hour you can leave some time at the end for questions and answers from the three political parties. If you would not mind, for the purposes of Hansard, please identify yourself and your position.

Mr K. Ward: I am Ken Ward, president of District 21, OSSTF. With me is John McEwen, our second vice-president and chair of our educational finance committee, and Richard Roffey, chair of our political action committee. On behalf of district 21, OSSTF, we would like to thank you for this opportunity to be part of the democratic process.

District 21 represents virtually all of the teachers of secondary schools with the Stormont, Dundas and Glengarry public board and some teachers with the separate board, secondary division.

John McEwen is recognized as one of the foremost authorities in Ontario on educational finance and he will review the impact of the budget on Ontario's publicly funded schools in general and Stormont, Dundas and Glengarry in particular. Before he does this, however, Richard will discuss the budget in the context of the financial situation which dictated it. Our submission proper begins on page 5. The executive summary at the beginning is for those who will not take time to read the whole report.

Mr Roffey: Before we get into the budget specifics, perhaps we should take a look at the Canadian context in which this budget finds itself. The Ontario budget cannot be perceived without examining the greater Canadian context within which it is confined.

The consequences of the policies of the federal Conservative government as they affect the Ontario economy, Ontario government revenues and the finances of Ontario residents and their families cannot but put education in Ontario under extreme stress now and for the foreseeable future. There is a strong connection between the effects of the high Canadian dollar, high interest rates, the goods and services tax, free trade and constitutional uncertainty on the economy of Ontario and the ability of that economy to adequately fund our schools.

The government in Ottawa has had a significant role in determining the size of the 1991 Ontario deficit. First, there is the federal government shortfall of \$3.6 billion in grants for social services. The graph on the next page provides a picture of the gradual withdrawal of the federal government in the fiscal life of Ontario. In addition, the policies of the Ottawa government, which have led to the downsizing or closure of many Ontario enterprises and the consequential unemployment and dislocation, have reduced provincial revenues and created the need for additional provincial expenditure.

Now, in the face of the misery it has helped to create, the federal government is gradually getting out of the business of providing direct assistance to people and being the social buffer between the haves and the have-nots of our society. The unemployment insurance reforms and the infamous clawbacks are examples of Ottawa's attempt at disinvolvement.

If Ontario had heeded Ottawa's call to pass the federal cutbacks through to the populace in the form of higher taxes and reduced services and if Ontario had ignored the greater social service expenditures required by the recession, then indeed we would have had a situation in which all social services in general and education in particular would be in great difficulty.

The great, brooding shadow which is invoked to justify the federal cutbacks is the federal debt. Conventional wisdom attributes debt to overexpenditure. Tory dogma asserts that the debt is a problem they inherited from the Liberals and they are dealing with it. The graph on the previous page suggests something quite different. The Liberal endowment of debt mushroomed under Tory fiscal policy, not because of excessive increasing expenditures; mismanagement, not expenditure, is the culprit.

The high interest rates set first by the Liberals, then by the Conservatives, pushed the debt into the stratosphere. The Tory tax increases heaped upon the poor and the middle classes have just balanced out the breaks given the rich and the large corporations. Unfortunately, the shift of tax burden to the middle class has occurred in a period when the middle class has shrunk in proportion to the whole and its share of the nation's wealth has declined. In this fashion, the Tories have given ordinary Canadians higher taxes, stagnant government revenues, less service and a larger debt.

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The federal government has created an environment in which the average Canadian can see his or her economic life being threatened. In short, the social contract of Canada is being shredded. The great danger is that the present Conservative government in Ottawa is creating a fiscal climate in which it may become impossible to re-establish the human programs that we presently enjoy. One can easily see the institutionalization of a new feudalism related not to land and castles but to financial wellbeing. We see the beginnings of this trend in the constant reminders that we will have to live with fewer social programs in the future in light of the new god of survival, competitiveness.

It is amazing to see the focus always put on social programs as the only cause for non-competitiveness, and by implication the present recession and all our present economic woes. This kind of thinking could in its most benign be thought of as being simplistic but in its present form must be considered dangerous and is indeed one of the factors which threatens the very existence of the nation.

The people have been forced into a siege mentality by a government that has little or no concern for the welfare of the common citizen. One manifestation of this behaviour on the part of the federal Conservative government is to try to blame the people for the present situation. The injustice of the Ottawa rhetoric is obvious. Our present

woes are the result of a recession made by the government of Canada.

It is unfortunate that in Canada we do not have a mechanism for a litigated action against the federal government on behalf of the people. If there were such a possibility, then the federal government as it is presently operating would indeed be found in breach of contract.

It is ironic that the storm of criticism that the NDP government of Ontario faces for its budget has its genesis in the fiscal mismanagement of the federal Conservative Party. It is doubly ironic that this budget, which is designed to blunt the effects in Ontario of those selfsame Tory party policies, is being greeted with outrage by self-styled fiscal conservatives. The NDP government is being criticized for mismanagement when it is the NDP government that is helping protect the people of Ontario from the harshest consequences of the present actions of the federal Conservative Party.

Perhaps it would be interesting to note at this point—I think it was reported in the *Standard-Freeholder* last night—that 10% of the population of Ontario is on welfare. I would say that is probably courtesy of the federal government and its unemployment insurance policies.

If I could present some of the Ontario context in which this budget finds itself, it is well known that the recession has struck Ontario with particular force. This government has made it clear that it has chosen to soften the impact of the recession upon Ontario residents rather than cut expenditures and raise taxes to provide a balanced budget. We support this policy for the following reasons.

Ontario has the capacity to take on additional debt. The cost of servicing the Ontario debt will consume 11% of the expenditures of the Ontario government, far less than the crushing 35% of expenditures which is the debt service load of the government of Canada.

In spite of the rhetoric of its critics, the total debt as planned in the 1991-92 Ontario budget is not large in the Ontario context. If debt is measured as a percentage of gross national product, the NDP government debt is about the same size as the Ontario Conservative debt of 1983-84 and the Liberal government debt of 1985-86.

The tax increases and expenditure cuts recommended by Ottawa to Queen's Park would cause, in addition to the misery inflicted upon a populace already bloodied by the recession and the consequences of Ottawa's fiscal malfeasance, a further tightening up of the Ontario economy. The consequences of a deliberate deepening of the recession in Ontario would be a further shortfall in Ontario tax revenues. Ironically, the fiscal course recommended by the wizards of Ottawa and their fellow travellers has the potential of providing a deeper and less productive deficit than that found in the present Ontario budget. I will refer you perhaps at this point to the appendix, which is a newspaper article describing exactly what happened to the federal government in relation to that policy.

There is a considerable human and economic cost to the policies of the Ottawa Tories. American studies have indicated that each per cent increase in that country's unemployment rate can be associated with 318 additional suicides, a 2% increase in the mortality rate, a 5% to 6%

increase in homicides, a 5% increase in imprisonments, a 3% to 4% increase in first admissions to mental hospitals and a 5% to 6% increase in infant mortality rates. Although no Canadian data is available to us, there must be an equivalent impact in this country. It is important that Ontario attempt to reduce the casualties created by Tory fiscal policies.

A portion of this budget deficit may be attributed to the anti-recession program. In addition to the economic and employment benefits provided by such a program in a time of recession, Ontario is adding buildings, roads, etc, which are urgently required.

For example, the \$91 million for school repairs and renovations given to the publicly funded school boards is welcome relief in the context of an accumulated Ontario capital deficit of \$4 billion for new and refurbished pupil spaces. In SD&G alone, the public board will receive \$1.67 million in grants towards additions, renovations, alterations and the installation of an elevator for the handicapped. In addition, the separate board is to receive \$1.35 million for renovations, new roofing, boilers, sewers and windows. These grants, along with locally raised revenues, will provide over 2,100 person-weeks of employment in the united counties. Given the hard times we are now part of in this region, we are facing timely expenditures that are necessary for the prudent operation of our schools.

Mr McEwen: The first budget of the Ontario NDP government did not allocate substantial new grants to schools. In fact, as the two graphs on the next two pages indicate, the 1991 budget allocated a slightly smaller portion of the whole expenditure to school grants than had been in the Liberal budget the year before, and those school grants supported a smaller portion of school costs than the year before. As the graphs indicate, the budget allocation to school grants is consistent with the pattern of decline in provincial grants to schools established and maintained in nine Conservative budgets and six Liberal ones. This is a considerable disappointment. On the other hand, school grants did not receive the kind of surgery advocated by the federal Prime Minister and the other critics of the NDP government. For that, we are extremely grateful.

As noted in the next section of this brief, grants to the Stormont, Dundas and Glengarry public board of education did not follow this provincial pattern. The grant increases provided by the NDP government resulted in an increasing provincial share of school costs, with corresponding savings to the local ratepayers. This additional funding has had an important impact on the united counties.

Moving on to my discussion of the SD&G situation, I would draw your attention to the graph on page 17, which shows the way in which the government's share of local school costs for the public board has increased for the first time in many years. In past years, property tax revenues have had to increase at rates greater than the increase in expenditures to compensate for the declining grant share. This year, the reverse occurred. This allowed the public board to provide adequate funding to operate its schools with a moderate tax increase.

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The year 1991 has been another year of plant closings and loss of employment in the region. It has also been a year when many municipal governments in the region have had to impose large mill rate increases. The extra school grants were therefore timely, easing the tax burden at a time of some difficulty.

How should the NDP government approach school finance? We would hope that the NDP government continues to ignore calls for across-the-board cuts in educational and social services expenditure. We believe that the Ontario government must base its school funding decisions on a careful consideration of the following:

1. What are the educational services that should be provided in a publicly funded system?

2. What is a reasonable expectation of the costs to provide those services?

3. What is the financial impact of government-mandated educational initiatives?

4. Is it possible to restructure the delivery of administrative, transport and other educational support services to provide the same educational opportunity at less cost?

5. What is the appropriate portion of the provincial budget to allocate towards school grants?

6. What funding structure can best advance the competing goals of equity of educational opportunity and local autonomy?

7. Are there other sources of local revenues which school boards could access?

These criteria are not new. Committees of the Legislature have heard them before from groups representing education's stakeholders. We hope this committee will recommend to the government that criteria like these be adopted as the basis of the provision of grants to schools.

It is generally accepted that the expenditure of public funds for education is a worthwhile act. As the graph on page 20 shows, there continues to be in Ontario strong public support for increases in educational expenditure at rates above the rate of inflation. Those who advocate cuts at any cost are a small minority. Indeed, they are smaller than the group of Ontarians who believe Elvis Presley is still alive and smaller than the group who believe Brian Mulroney should be Prime Minister of Canada. The strong support in Ontario for increased school expenditure is not surprising. Parents understand the relationship between education and success in life. Economists and business persons understand the connection between education, productivity and growth.

Paradoxically, although support for increased educational expenditure remains strong in Ontario, the portion of our personal incomes which we devote to elementary and secondary education has declined steadily over the last 20 years. This is indicated by the graph on the next page. One consequence of this decline is that all the states and provinces which border Ontario spend more money on elementary and secondary education—as measured by the proportion of personal income committed to the purpose—than we do. This is shown in the graph on page 23. Is Ontario neglecting an important social investment? The behaviour of our neighbours suggests that this is indeed so.

At this point, I would like to ask the president of the district to provide the summary of our brief.

Mr K. Ward: To recap, then, the Ontario budget must be looked at in the Canadian context: the high Canadian dollar, high interest rates, the GST, free trade, constitutional uncertainty, slashed transfer payments, breach of the social contract and the homegrown recession. In addition, it must be viewed in the Ontario context. Ontario can absorb the debt. The real debt is no larger than during previous governments. We support the Ontario government's attempt to negate the devastating effects which the federal policies would have on social programs.

We have four main recommendations: The 1991 budget plan of the Ontario government be supported as a sound response to the difficult times currently facing Ontario; decisions on education funding must be made in a comprehensive way on the basis of need; educational funding must increase in real terms, and the dependence of school funding on local taxes must be diminished.

Mr Chairman, honourable committee members, thank you for listening.

Mr Kwinter: I just want to question you about the methodology you are using in some of your graphs.

Why would you select percentage of income as being the criteria? I will give you an example. Let's say that in Ontario the average person earns \$20,000 a year, and let's say in Newfoundland the average person earns \$10,000 a year. You talk about the percentage of income. It would seem to me that a more valid comparison would be expenditure per student, and then you could say, "We are spending less per student than someone else is." But when you start going across the board with all of these percentages of incomes, to me it does not have any relevance because you do not know what they are.

Mr McEwen: There is a significant problem with using expenditure per pupil. I have used that in the past, but the problem is that in a high-wealth area such as Ontario—relatively, we still are a high-wealth area—costs are also much higher. And I do not mind telling you that if you paid me the salary of a Newfoundland teacher, I would not be teaching because I could not afford to live here in Ontario on the salary of a Newfoundland teacher. But a Newfoundland teacher can afford to live in Newfoundland, in some circumstance. So using percentage of personal income washes out the variances in costs.

When we are comparing with the American jurisdictions, it also deals with the nasty question of the exchange rate. You can make an American comparison seem whatever you want it to seem if you simply use dollars per pupil.

Furthermore, it is a measure of the commitment of a community to its education system, and in that sense the commitment of the Ontario community to its education system is less than that of any of its neighbours. Indeed, although I have not shown this in the data, it is currently less than any other province in Canada.

Mr Villeneuve: A statement was made that the deficit this government is projecting is no worse than those for previous governments. Are you aware that by the 1994-95

fiscal year, we will have effectively doubled the provincial debt? Do you still hold by that statement?

Mr McEwen: Using the figures supplied to us by the Ministry of Treasury and Economics, measuring the deficit as a portion of the gross provincial product, that is so. After all, if we look at the gross provincial product of some years ago, it was somewhat smaller than it is today, even in our tightened times. That is a much more valid comparison than to do it in raw terms.

It is for the same reason that we have borrowed from the Economic Council of Canada the graphs that look at the federal government's performance in terms of the GNP, not in terms of absolute values. You can see that the federal government's track record on the debt, as a portion of the GNP, is very poor when compared to Ontario's.

Mr Villeneuve: So you agree with what the federal government has done and want the provincial government to come to the lowest common denominator.

Mr McEwen: I believe the federal government has created a fiscally irresponsible debt in the sense that unlike the debt of Sir John A. Macdonald, which purchased the railroads, this federal government's debt has purchased absolutely nothing except human misery.

Mr G. Wilson: I want to say that your presentation here is very informative and speaks for itself, and talking about fiscally irresponsible, I think in particular the highlight is the social irresponsibility of the federal approach to our economy, as you point out on page 12 with the American view, that you think probably applies to Canada as well, about the results of the kind of straitened circumstances we are heading into here.

But I do want to ask, since you raise a number of very pertinent questions about the future of our educational system, what you think are some of the ways of answering those questions and what the role of the OSSTF might be, the role of the school boards and the role of the provincial government, in highlighting these questions in the communities. Have you given that some thought? Are there examples here in the area that you can point to of taking these questions to the community?

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Mr McEwen: We participate, through the Ontario Teachers' Federation, in the Stormont, Dundas and Gengarry Industry-Education Council. That provides us a forum where labour, industry and education locally can find out about each other's mutual needs and deal with the difficulties we have. My colleague Mr Roffey also is involved in other forms of community education that deal with helping the community to come to grips with the local context of education and the kinds of decisions that have to be made for education here.

The Chair: Thank you for your very informative brief here. It looks at what the budget was, what it has done to date and how it is going along. Thank you for your submission to this committee.

CITY OF CORNWALL

The Chair: I would like to call on his worship the mayor of Cornwall, Mr Phil Poirier. Welcome, your worship.

Sir, you have a half an hour for your presentation. Could you leave some time at the end of that half-hour for questions and answers of the three parties.

Mr Poirier: Thank you very much, Mr Chairman. Good morning, ladies and gentlemen and welcome to Cornwall. On behalf of my colleagues on council, it is indeed a pleasure to be able to have the opportunity to address this committee. I am sure the summer has been a busy one for the committee and you are looking forward to the reinstatement of the House.

If additional copies of the brief are needed, I have brought extra copies. I will not read the brief completely. I will go through the executive summary and, towards the second-last page, some specific recommendations. I am only too happy to try and answer some questions.

The city of Cornwall is a relatively small community tucked away in a corner of Ontario. Traditionally an industrial centre, the city in recent years promoted the diversification of its business community. Recent economic pressure, a continental recession, rapidly changing global markets and cross-border trade issues have combined to create a severe disruption of this community's economy. Despite these economic pressures, the city has continued to aggressively market Cornwall as an attractive business location. These efforts have been, to a large degree, very successful. Interest in the city from manufacturing and service sector firms has continued to rise for the past several months. At the present time, the city is currently dealing with close to 100 firms in varying sizes with various interests.

Unfortunately, this unusually high amount of potential new business development has not translated into positive announcements and new job creation. The city's economic development department is currently assisting interested firms considering Cornwall as a potential new business location. Some of these clients have maintained a dialogue with the city for over 12 months. One common element that the department has been able to identify in its dealings with these clients is the inability or reluctance of these firms to make a final site decision. Unfortunately, the city has very few tools to assist these companies in their decisions and is actually prevented by legislation from doing so.

In simpler words, the current situation could be likened to the efforts of a small business entrepreneur. Imagine if you will that a retail store has been opened in a very strategic location. The business has been well advertised and accordingly the store has generated a very healthy amount of customer traffic. Unfortunately, despite a store full of customers, no goods are being sold. It would appear that although the merchandise in this fictional store is attractive, the store has nothing special to offer even interested consumers. Obviously, some form of promotion is necessary to transform the browsers into satisfied customers.

It is Cornwall's position that the time is right to offer companies considering a business location in Ontario, specifically eastern Ontario, an attractive incentive to assist them in making a final positive decision. Cornwall, like its sister communities throughout the province, continues to work very hard to secure new economic development and new job creation. It has become clear that municipalities

cannot complete this task without the assistance of its long-time partner, the province of Ontario.

At the present time, Ontario's competitiveness as an economic region is being weakened by its reluctance to match its competitors' actions. Ontario businesses are currently being solicited by US economic development officials and are being enticed with lucrative financial packages. If this process is to be allowed to continue, then Ontario will continue to see a negative growth in all sectors and a permanent loss in new business activities.

Cornwall would like to extend an invitation to Ontario to immediately implement a program that will provide some form of financial incentive for new business development. Briefly, the reinstitution of the interest-free loan program offered by the Eastern Ontario Development Corp should be a priority. Strong consideration should also be given to the development of a program to assist businesses to offset relocation and manufacturing startup expenses. Assistance programs relating to training and workforce improvement should be maintained and perhaps expanded.

The following brief will explain the rationale behind the city's position. Cornwall has always been fortunate to have an excellent working relationship with the various provincial ministries and offices relating to economic development. The time appears right for both parties to work together to strengthen the relationship and to work together to meet the increasing competition from outside regions.

If I may be permitted to ask the committee to go to the second-last page, please, there are some specific recommendations I would like to discuss with the committee.

Cornwall is the most easterly centre in Ontario, uniquely situated on the borders of both the province of Quebec and the state of New York. Cornwall's strategic location has played an important part in this development of eastern Ontario's industrial heart.

The 1990s will be a decade of pivotal changes for Cornwall and the surrounding regions that depend on the city for so many services. A number of important projects and trends have begun to develop, and the city's future prosperity will depend on the ability to manage these events.

The ongoing process of the rationalization of manufacturing operations will continue to have a profound effect on Cornwall's industrial sector and thus on the overall local economy. Projects aimed at assisting in the diversification of the economy, such as a downtown revitalization and waterfront redevelopment, will only succeed with an accordant shift from an industrial economic base to a commercial/service sector economic base. As the province begins construction of a new downtown office complex, the opportunity for the Ontario government to play an integral part and vital role in this economic diversification will never be greater.

At the same time, there exists an incredible potential for the expansion and restructuring of Ontario's industrial base. Progressive companies involved in both traditional and new industrial sectors have demonstrated an ability to react to changing developments in both technological and market fields.

In the past two decades, the importance of economic development has been recognized throughout North

America. Accordingly, almost every identifiable region has an established marketing program. If Ontario is to maintain its current industrial base as well as develop its fair share of new business development, then the province must be willing to meet its competition head on.

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The environment for business to grow and prosper in Ontario is no longer as attractive as it was. Continuing changes in society will mean that a more equitable balance between the environment and development concerns must be struck. At the same time, the province must indicate to new and growing businesses its desire to partner and share in their success.

It is the specific recommendation of Cornwall that Ontario immediately implement a process whereby some program of financial assistance is established to provide incentives for new business development. Briefly, the reinstitution of the interest-free loan program offered by the Eastern Ontario Development Corp should be a priority. Consideration should also be given to a program to assist businesses to offset relocation and manufacturing startup expenses. Assistance programs relating to training and workforce improvements should be maintained and perhaps expanded.

The information between the summary and the recommendations just goes on to expand and substantiate some of our reasoning and rationale as to the conclusion that we in Cornwall have taken. I would only be too happy to try to answer, to the best of my ability, any question the committee has. Thank you very much for being so attentive.

Mr Villeneuve: Your worship Mayor Poirier, thank you for being with us this morning. You have a rather unique problem here. I realize we have lost a lot of industries. We may well have some coming back in, thanks to the way your city and your employees are operating, but cross-border shopping remains, I think, the biggest problem we have here.

This government, in its wisdom, saw fit to increase the fuel tax and also to go to a deficit of almost \$10 billion this year and an eventual additional deficit of \$34.8 billion by the fiscal year 1994-95. The increase in fuel tax, which renders, I believe, a \$30 gas fill-up here in Cornwall, equates to a \$20 gas fill-up in Massena and a \$16 gas fill-up on Akwesasne, which is situated between New York state and Ontario. You have not really come to the real problem of that. Do you feel that doubling the deficit in four years can indeed, according to some of the people who made presentations, actually reduce our taxes? What is your feeling on the additional taxes which compounded the problem that faced this city immediately?

Mr Poirier: The problem we face in Cornwall is not different than in the province. With regard to the cross-border issue, I am fortunate to sit on a task force with 14 other mayors. We are very pleased to see that the government has indeed seen fit to allocate a startup of \$50,000 to each community. That will help us market. That is only a Band-Aid approach. But the problem is the total package of the way we do business, not only from private enterprise, but as a government.

As you know, in Alexandria, in Glengarry, no more than 30 miles from here, we had the fifth-largest trucking company in Canada declare bankruptcy. When we have in Ontario, for instance, deregulation, high cost of fuel, high dollar and what not, which have affected the trucking industry dramatically, when we have a crippled trucking industry in our province, what I do not understand, as a mayor or as a business person, is to institute additional taxes when it needs all the help it can get. That is what is compounding the problem.

We also know that when it comes to cross-border shopping, the motivating factor or the catalyst that drives people over to all of our neighbours to the south is gasoline. That is what drives them and that is what brings them to buy alcoholic beverages and food and what not. But it really relates back to the cost of doing business in our province. The cost of doing business in Ontario today, in comparison to other provinces or the rest of North America or the rest of the world, is not as lucrative. For instance, my colleague the mayor in Massena, which is no more than 15 minutes from here; my colleagues the mayors in Potsdam and Malone, which are all within half-hour driving distance—I can substantiate letters approved by their respective councils which will give them one year, 2 years, 5 years, 10 years of free taxes.

We all know the advantages of doing business in Ontario, but the prime motivating thing that is happening in our province, as I see it, is that it is too expensive to do business. In all fairness to respective governments in the past, today or in the future, we have all compounded that problem because we as individuals, politician, leaders, individual citizens have demanded too much on the Treasury. What we are faced with now is the reality of whether or not we want to sustain the economic base we have, put in a productive day, be prepared to put in eight hours' work for eight hours' pay, be fair and tax the corporations. But by the same token, we cannot be flirting with guaranteed income supplements to our workers; we cannot guarantee 14-year-olds welfare payments any more, and so on. You know, "We have tax."

It alludes to your question, Mr Villeneuve, but the problem is such that if we are going to retain what we have, we have to be more competitive and we just cannot keep taxing people. There are very difficult decisions for municipal leaders, provincial leaders and federal leaders. The answer is to say no, but to put the money where it is, not giving welfare to 14-year-olds.

Mr Villeneuve: In 1985, there was documented and substantiated evidence that taxpayers and indeed residents of Ontario had a 10% tax advantage over residents of our neighbouring province of Quebec and therefore we attracted business. We understand now, based on a survey that was done near the end of 1990, that we are at a 2% disadvantage. We had a presentation in Ottawa from an accountant that would suggest to any potential client, if he were to have an alternative to set up a business in Hull, Quebec or in Ottawa, which would be the best. The accountant inevitably said you would have advantages by going now to Quebec because of taxation advantages. That puts you and your city at a very great disadvantage in that

we now have Quebec which is advantageous for business to set up there and of course we have New York state, as you have mentioned, which is providing terrible incentives for people to go there, and yet the city of Cornwall, situated where it is, has to compete and it is most difficult.

We have talked about the cost of fuel and the \$50,000 Band-Aid to simply promote the city. What would you feel is the next most important aspect in this dilemma that faces you as the mayor of this city and the residents of this city? It certainly includes the residents of the riding I represent.

Mr Poirier: In my opinion, what we have to do is work very diligently to retain whatever jobs we have today, and that has to be a partnership. We just cannot rely on the government to do it for them. Private enterprise and government have to come to the reality that we have to retain what we have. Where there is an opportunity to lure whatever investment—commercial, industrial or otherwise—into our province, I believe we have to start looking at the weak sisters of our province.

I envy my colleagues in northern Ontario; I envy the development that is taking place in northern Ontario at various locations of reinstituting various provincial agencies. Eastern Ontario has never had the luxury or the programs. We had one lousy little program, the eastern Ontario redevelopment thing and that was wiped out. The Ministry of Industry, Trade and Technology, in my opinion, has to be beefed up to the point where there is a prospect or even the smell of a prospect, whether it be Europe, Asia or whatever, we have to make sure that our trade offices are well staffed across the world, that people out there are aware that Ontario is still one hang of a good place to do business.

We have to acknowledge, in my opinion, that people create jobs and jobs create taxes. If we do not have a base of people who are working, who are paying taxes, we do not have taxes to pay whatever social programs are available. We have to realize that to expand the quality of life, whether through social programs, health or education, universities and colleges, we need money, and where are you going to get the money? Money comes from profits and profits come from jobs and productivity. The emphasis that has to be placed in this province by all levels of government is to create an atmosphere where people in the world and within—we have more barriers in Canada than we do in Europe; Brewers' Retail, for instance.

1120

Mr Jamison: Thank you for your presentation. I found it interesting in the area of development. Obviously every avenue has to be explored on how we can try to accomplish the very things you speak of.

Since this is a budget hearing, I would like to turn to the budget and ask you a question or two concerning the budget. I know there are people who have presented here who are pro the initiatives that have taken place in the budget and there are people who have expressed negative views. I would like to ask you as the mayor of Cornwall a question that relates to transfer payments. Transfer payments seems to be a large issue, whether federal transfer payments or provincial transfer payments to municipalities. If

in fact, as some detractors have indicated, we had not transferred moneys to the municipalities, in particular Cornwall, what would the effect have been on your town, coupled with the lack of, say, an anti-recessionary program? What kind of effect would that have had on Cornwall itself?

Mr Poirier: It would have had a very negative effect because of the cost of operating the municipality. If we look at court security, if we look at the legislation in regard to social services—I was speaking to our chief administrative officer yesterday and we just gave the directive to cancel all overtime. Our department of social services, as of yesterday, has spent all of its 1991 budget and we are getting a burnout effect from our staff, God bless them—and our case loads.

The transfer payments have not concurred with the relationship of what the provincial and federal government have demanded or forced us to do. So what happens is that we only have one choice, which is to raise the taxes or borrow more money. I must say 1990 was the first time in many years in the city of Cornwall that we had a deficit, but I see now with the proposed legislation coming down the pike that there will be greater demands on the local treasury. There is just one of two things that will happen. First, the taxes will have to be increased to pay for those services or the services will not be able to be implemented or, second, they will just be cut off.

So transfer payments are being downsized from the senior levels of government to the municipality, relatively speaking, to balance their books, but what is very frustrating for a community like Cornwall. We get memoranda, you know. For instance, we had one about one month ago: "You will now have to police the waters around the city." It is not our jurisdiction. Those are the small items, but if that was mandated by law, we would have to go out and buy a boat and get additional police officers and things like that. The rationale behind all of these are very good, but can we afford it?

Mr Jamison: Certainly part of your presentation was concerning the cross-border shopping issue. It is certainly an issue that has developed over a number of years; it did not happen overnight. We found ourselves in a position where we are struggling with that situation. I attended the meeting of mayors with you and we were successful in taking an initial step in trying to deal with that particular problem, but beyond that I wonder what kind of effect you noticed. To me, there seem to be two stages that really heightened the problem. One was the free trade agreement that seemed to place in people's mind that attitude. I know in hearings this committee had, we found that people indicated and communities indicated that there was a dramatic and almost immediate increase in cross-border shopping upon the implementation of the GST. Is that what you found here in Cornwall?

Mr Poirier: Yes. Free trade is an area of involvement that has just acted as a catalyst. As every January 1 comes around, we also know that list of trade is expanding that. The GST was just another catalyst or another spoke in the wheel that gave citizens of Ontario an excuse, if you wish.

Mr Cleary: I was going to touch on the gas and fuel tax, but my colleague Noble has pretty well tossed that around so I will go on to something else I know is very important in this part of eastern Ontario, the interest-free loan program. You say in your brief that you were dealing with some 100 industry and service providers. I agree there is great interest in the area. In your opinion, how many of those people you are dealing with would take advantage of that portion of the interest-free loan program if it was now in place?

Mr Poirier: Ninety per cent of them. We have looked at various incentives, only because it is stimulated by competition by Quebec, by northern New York.

Mr Cleary: That is true, because I deal with a lot of those too in this area, and they seem to see what we can offer here in this part of eastern Ontario and then they compare it with our neighbours to the south. I know that was a very popular program and it would be great for this area.

Mr Poirier: I cannot endorse it enough.

Mr Kwinter: I would just like, if I have a couple of minutes, to tell a story because I think it really impacts on some of what you said and points out that there is more to it than just the incentives.

When Goodyear decided it was going to locate in eastern Ontario, it came to us when I was the minister and we found a site for it. The site we found for them was not the site they wound up in. We kept trying to put them into the site we had found. It is no secret, it was Morrisburg, because we thought it was a good site, it was better for them. They wound up in Napanee. When we told them we did not think the Napanee site was as good as the site we had for them they said, "That's fine, but that's where we're going." No amount of pressure on us to move them would move them.

When it was all over I signed on behalf of the government. I asked the chairman of the board, "Why did you go to Napanee?" He said: "It was very simple, our biggest customer was General Motors. They told us they wanted us to be within an hour and a half's drive east of Oshawa. They didn't want to get caught up in the traffic in the Golden Horseshoe. We took a look at sites and we found that Napanee had the best technical high school in eastern Ontario, and that's where we went because that's where we're going to get our workers, that's where we're going to get our people trained, and that was the decision. Notwithstanding any other considerations, any other inducements that other communities offered, that is where we chose to go."

I think it really points out that there has to be more than financial incentives, because there is no one who cannot match your offer or undercut it. You get involved with what is known as a mug's game. If you are just going to be offering financial incentives, then whoever bids the lowest is going to get it if that is the determinant. Then, of course, you are stuck.

We have seen a lot of the New York state communities that have given tax incentives, tax inducements, free taxes for a number of years. The plant moves in. They burden the community with all the services they require, but they

are not paying for them because they have been given these inducements, and somewhere down the line, some of the biggest companies around decide they are moving. So they move out, you are left with the facility, you are left with everything that goes with it, and there are some very serious problems.

I just wanted to say I appreciate the problems Cornwall has, but there has to be more than just financial inducements, because anybody can offer financial inducements. Then you are getting involved in the bidding game. You have to develop some unique attributes which Cornwall has in its location and its workforce and all of those things. I just wanted to comment on that because I do not think financial inducements are the answer.

1130

Mr Poirier: Very quickly, I agree with you. It relates back to what I alluded to at the beginning, because in half an hour you try to highlight them, but it goes back to the social and educational structure.

I remember when I went to high school in this community, there were woodworking shops, machine shops, carpentry shops, printing shops and what not. I am told the average bricklayer in Ontario is 54 years old. Talk to any contractor. Try to find a drywall applicator.

I am told that only approximately 15% or 20% of high school students go to post-secondary. What do we do with the other 80% who are basically computer-illiterate, who have absolutely no taste for the skills of the hand, whether it be plumbing, sheet metal workers, high-pressure welders? I grant you, when we look at the arts and the liberal arts, it is great. But look at the millions of dollars that are being funnelled into our education system. With all due respect to the students, if they are business entrepreneurs, what have we educated them for?

The Chair: I would like to thank you, your worship, for your presentation before this committee.

HELENA McCUAIG

The Chair: The next presenter is Mrs McCuaig. I would like to welcome you here to the standing committee on finance and economic affairs and for the budget review. You have 15 minutes for your presentation. If you can leave some time for questions at the end for the three parties.

Mrs McCuaig: I am Helena McCuaig. I live near Alexandria. I am an elementary school teacher in Alexandria. I decided to come before you this morning because I want you to know that I am afraid of the future of this country. I think that its very existence is threatened by federal policy, and I for one am pleased that Ontario is not falling in line with the economic policy of the other nine provinces.

We are fighting a man-made recession that is crippling all of Canada, but particularly Ontario. It is taking the future from countless members of the population. In this past Sunday's Citizen the headline read, "A Million on Welfare." They were talking about 961,000 people, or 10% of Ontario's population, that has been reduced to accepting handouts. Add to that another 10% on unemployment and we begin to see the magnitude of the crisis. Besides these

statistics, we add those who are struggling to hang on to their farms and their family businesses.

I am pleased that the committee decided to stop in Cornwall, because we in eastern Ontario—and I mean this far eastern region, not the Kingston area, not the Ottawa area, but those of us who live on the Quebec border—seldom have the opportunity to tell government people where we are at.

We have been fighting unemployment, alcoholism and abuse for years, and now even the few industries we depended on are going or gone. Alexandria is the largest town in the counties of Stormont, Dundas and Glengarry. We had what we believed were safe industries. They did not pay really high wages, but they seemed stable and permanent. Then in June, GTL, one of the largest of Ontario's transport lines, declared bankruptcy under the combined pressures of deregulation, free trade and the recession. I must here state that I realize deregulation, free trade and the recession go right back to the federal government.

I was disappointed, in fact, that the budget did not include some tax concessions to the trucking industry. Next Brown Shoe, another major employer closed down its doors this summer. Alexandria Moulding has cut back its Alexandria operation and moved part of the plant to the USA. Carnation has threatened to relocate some of the work to the United States. Farley Windows is establishing itself across the border. The list goes on and on. Out in the country, cash crop farmers are looking at prices closer to the 1930s than the 1990s. All of this has had a detrimental effect on the local businessman. Most Friday nights Alexandria looks like a ghost town.

I said I am an elementary school teacher in Alexandria. I have lived in that area most of my life. I grew up on a farm, and most of my family is still farming. I hate to see what is happening to the area. When the school closed in June, many of the parents connected to our school were facing layoffs. Many will be on unemployment, and after that, what? This September our school will begin to feel the impact of job losses. Children from homes where parents are feeling a great deal of stress are not happy children, and we in the education system must cope with the impact of this emotional instability.

I do not come before you as an accountant or an economist; I come as an individual to say that Ontario cannot turn its back on its people. The federal government has sold us out. We, as the most industrialized province, are losing thousands of jobs to the United States through the free trade agreement. Our dollar is too high, and you discussed before cross-border shopping. I believe that if the Canadian dollar was devalued to some extent, we would solve that problem a great deal. Our interest rates, while dropping, have done their damage. I realize this is federal jurisdiction, and we here cannot change it. However, the Ontario government must do what it can to help us through this recession and back on the road to prosperity. I am pleased that the government decided to put money into job creation and that it did not cut back on grants to municipalities and education. Right now, very few home owners could absorb the increased taxes that would result if the province had put all of its emphasis on a balanced budget.

This is not to say that I agree with a permanent deficit, but it seems only reasonable that we can borrow in bad times to pay back in good times. If, at this time, the provincial government should cave in to the pressures of those demanding a balanced budget, we would be facing grave social problems down the road. We cannot let our farmers go under, and we cannot afford to lose our local family businesses. We cannot let our children carry the burden of destroyed hopes and dreams. These are the only hope of a renewed Ontario.

As a footnote, I see that even those who complain about a deficit say that taxes should be decreased on gas, and they should increase farm payments. That ends my submission, but I feel very strongly that this government must help its people. This government cannot let eastern Ontario go under, and this government must put more emphasis on helping the agricultural community.

Mr G. Wilson: I would like to ask you, since you are an elementary school teacher, particularly about children. We have been told that many of the people on welfare, many of the people in poverty, are in fact children. Part of the thrust of our budget is to make sure that the investment is there for the future; that is, if we do not make sure the kids of today are well-educated, you are going to be even worse off in the future. I would like you to comment on what it means in your particular setting in the school to have the funds necessary to make sure that you can do your job.

1140—

Mrs McCuaig: If we could have billions and billions of dollars, I would say that education is the most important element in the development of this province. Some people commented about the fact that there used to be woodworking, and there used to be all kinds of things. As budget restraints came in, as the money went down, we had to let teachers go. We closed some of the best woodworking centres because there were not the finances to keep them going. We had excellent home economics classes, which to me are very important because every individual has to know how to balance a budget, every individual has to know how to cook a nutritious meal. That type of thing had to be taken out of the education system because of budget constraints. Under the present conditions, I do not see how we can put them back. But to cut down further on education would be a disaster because we cannot compete in an international market unless our people are prepared for it.

Another thing I feel, as more and more people end up on welfare, we are taking their pride away. We are telling them they have to accept handouts from we who are better, who are able to do it, and I think, as a government, we have to look at this issue and we have to say: "Well, what can we do to get these people employed? What incentives can we make so that these people will go back and go off the welfare rolls and out of the welfare cycle?" I think the education system has a great role to play in that. We have to realize that these children are brought up in an environment where welfare is acceptable, and we, as an education system, have to look at that and develop a concept where they want to go into jobs.

Mr Cleary: You touched on problems in the agricultural community and I know that you do that on account of where you live. Most of the members at Queen's Park have been getting pressure from the different farm organizations about some of the problems they are facing this season, particularly in small grains, and I think we have an all-party agreement now at Queen's Park that we will have a couple of days of hearings and bring in these farm groups to listen to them. Hopefully after we have those hearings, something will happen to help them through this crisis they are in this year. I think if they do not get a bit of help this year, many of them may not be in business next year. I just wanted to make that comment.

Mrs McCuaig: I agree with you wholeheartedly, and I think the way to go about it is the way that we are doing. Go to the farmers, go to the farm groups, have them suggest ways of improving the situation. They know where they are at and they know what they need. But at the same time, you have to remember that when on the one hand you say, "We have to have a balanced budget," and on the other hand you say, "We have to make moneys available for better education, we have to make moneys available for farm help," we cannot have our cake and eat it too, and I believe the present government is trying to walk the fine line between being fiscally responsible and overspending or underspending. I believe that the men and women who are there realize the situation we are facing. Unfortunately, we cannot change what the federal government is doing, but I believe that we need major changes.

Mr Villeneuve: Mrs McCuaig, it is great to see you with us today, and thank you for coming. At this time last year, we were both right up to our ears in an election campaign, you for the now government and I for my party. It was a very interesting scenario, particularly when we went to an all-candidates debate. You, being a farmer as well as a teacher—and I do not know which comes first; I think you are both, and one is as important as the other—are aware that agriculture got a 3.5% increase by the New Democratic government of Ontario. At the same time, all the employees within that ministry got a 6.8% increase, which effectively leaves a net increase to agriculture in Ontario, when we are faced with the most difficult times in memory, of \$19 million.

The growth through responsibility and individual participation program does not come into effect till next year, and the net income stabilization account program will also come in. A lot of people are disillusioned or have been led down the garden path. We had people who made presentations yesterday that there was a \$100-million increase in the budgetary funding of the Ministry of Agriculture and Food, which is not the case.

The new jobs that were supposed to have been created by this budget may well be out there, but you and I know they did not come to Glengarry, Stormont or Dundas or anywhere in eastern Ontario. Agriculture is of utmost importance to our area, and you have recognized that and I think have actually put forth the scenario that is very much in evidence in eastern Ontario. In agriculture, what has to be done now to help us?

Mrs McCuaig: I think now they need short-term aid. We need money out there to help the farmers, especially cash crop farmers.

Mr Villeneuve: You are in the production end of things. I have been pushing very hard for the production of ethanol. The Americans are producing ethanol to the tune of two million bushels of grain a day. Here in Ontario we are still waiting to see if it works. We know it works. It works in other provinces of Canada. This would at least create a market for grains that right now have no market. I say, and I think you will agree with me, that this government should be listening and that industry would be a natural to eastern Ontario, so let's get on with it.

The Chair: I would like to thank you for your presentation here before this committee.

CANADIAN PAPERWORKERS UNION

The Chair: The next group is the Canadian Paperworkers Union. Would they come forward, please. You have up to one half-hour for your presentation, and during that time please wind up leaving some time at the end for a question-and-answer period. The clerk will hand out your written submission to the members of the committee. If you would not mind identifying yourself and your position for the purposes of Hansard, you may begin your presentation.

Mr Guenette: I am Denis Guenette. I am staff representative for the Canadian Paperworkers Union, and I welcome the committee to Cornwall. I am glad to see that this government is making a real effort to reach out to the people of Ontario by holding public hearings across the province on the budget. I personally represent about 2,000 workers from the Trent Valley to Cornwall, or the easternmost tip of Ontario along the St Lawrence River. The Canadian Paperworkers Union would like to thank your committee for the opportunity to outline the views of its organization on the recent Ontario budget.

The Canadian Paperworkers Union, CPU for short, is a national union that represents workers in a variety of industries, primarily manufacturing companies whose principal raw material is wood. In Ontario, CPU represents 22,000 workers in pulp and paper mills, sawmills, board plants, corrugated box plants and many other industries.

Perhaps the most remarkable aspect of the 1991 Ontario budget is the reaction to it by the business community and the business press. Shock and outrage seem to permeate most of their statements despite the reality of a rather conventional budget. Even granting that the budget deficit is somewhat on the large size and that everyone would prefer it to be smaller, the level of hysteria attained at times has been rather puzzling, given that Progressive Conservative governments have often incurred deficits of similar magnitude in the past without eliciting the same apparent outrage.

Could it be that it is not the size of the deficit itself that matters but rather who benefits most from the shortfall in revenues? The much larger deficit incurred by the Mulroney Progressive Conservatives at the federal level is, in large part, due to tax breaks to corporations and very high-income earners. Not surprisingly, concern for that deficit is quite mute in business circles and certainly does not reach

the level of consternation attained when a much smaller deficit is incurred by an NDP government to alleviate hardship for working people during a sharp economic downturn. For example, the projected Ontario deficit of \$9.7 billion for 1991 represents 3.4% of the provincial gross domestic product, whereas the federal deficit for 1991 represents 4.5% of the national gross domestic product, nearly one third more.

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Turning to the 1982-83 period, when the Progressive Conservatives were in power in Ontario, the total provincial government debt stood at 17.4% of the gross domestic product at that time, compared to 18.3% in 1991 under the NDP. This gap is quite small, given that the 1990-91 recession is far more severe in Ontario than was the one that occurred in the early 1980s. The current recession is the worst to hit Ontario since the Great Depression of the 1930s. Job losses in the province have totalled 214,000 in the first year of this recession compared to 89,000 in the first year of the 1981-82 recession, a drop of 4.3% in employment compared to a drop of 2.1% in 1981-82. In a normal year, the Ontario economy gains about 100,000 jobs. Ontario's rate of job loss in this recession has been twice the national average and has accounted for 80% of the national loss in jobs.

The catastrophic policies of high interest rates, the high dollar and free trade inflicted upon our country by the federal Conservative government are largely to blame for the massive job loss our province faces today. In the Cornwall area, job loss among the workers represented by CPU has been about 10% since the start of the recession. We are facing cutbacks in all our locals, including two near shut-downs where the workforce has been reduced by up to 95%. On Thursday of this week, we are having meetings with Domtar, one of the largest employers here, and there are further cutbacks to be done at Domtar.

The number of manufacturing jobs in Ontario has dropped by 97,000 in the last year compared to a drop of 76,000 in 1981-82, a drop of 9.9% in manufacturing jobs compared to a drop of 7.25% in 1981-82. In this recession, 65% of major layoffs are due to permanent plant closures, compared to 24% in the last one. Needless to say, the Cornwall area has had its share of permanent plant closures.

The exceptionally high job loss in the manufacturing sector is particularly disturbing. A healthy manufacturing sector is at the core of our capacity to produce wealth and provide a high standard of living to workers and to all the citizens of Ontario. For example, manufacturing provides one in five of all jobs, and these jobs are much better paid than average. In December 1990, manufacturing workers in Canada earned an average of \$614.36 per week, one fifth more than the average of \$523.41 earned by all workers. The gap is greater if just hourly paid workers are considered.

In addition, the manufacturing sector supports many tightly linked jobs in the service sector. The transportation, communication, utilities and business services sectors are particularly dependent upon manufacturing. Statistics Canada estimates that, across Canada, 250,000 jobs depend directly on the forest-based industries and that an additional 600,000 jobs depend on them indirectly, for a total of 850,000 jobs. This gives an idea of what the downstream effect on job loss in at least one area of manufacturing would be.

The erosion of jobs in manufacturing is of great concern to us. In fact, one reservation we have about the budget is that additional resources should have been allocated on a major initiative to develop value added manufacturing industries in this province. Certainly this is needed in the forest products sector, which is far too reliant on commodity products such as wood pulp, newsprint and commodity lumber.

Perhaps one of the most misleading aspects of the anti-budget rhetoric is that the \$9.7-billion deficit figure is taken completely out of the current recessionary context. Any Ontario government, be it NDP, Liberal or Tory, would have had to face a substantial deficit. While it is true that at the cost of considerable hardship to tens of thousands of Ontarians the deficit could possibly have been \$1 billion smaller, this is hardly reason for such a shrill reaction on the part of opponents of the current government.

In fact, the largest part of the \$9.7-billion deficit is due to the recession. Lower revenues, the impact of federal government cutbacks in transfer payments and higher welfare costs account for about \$5 billion of the deficit. Another \$3.2 billion of the deficit is accounted for by expenditures needed to maintain levels of service in existing programs. Only a small portion of the Ontario deficit, \$1.5 billion, is for new programs or services put in place by the NDP government, such as the social assistance reforms and the wage protection fund. In fact, even this figure may be overestimated. James Frank, chief economist with the Conference Board of Canada, estimated the figure to be about \$640 million.

We encourage deficit critics to supply the public with the list of hospitals and schools that should be shut in order to reduce the size of the deficit. Perhaps they could also provide us with the names of the children who, in their view, deserve to be condemned to abject poverty by social assistance cuts. Let me remind you that 40% of those who depend on social assistance are children. How many homeless eight-year-olds do the budget balancers want to see aimlessly roaming the streets of our cities and towns?

Surely the US free market experience of social cutbacks should be warning enough for us in Canada. The lesson from the south is simple: If you let your transportation system deteriorate, if your cities are unlivable, if you tolerate a destructive waste in human potential of poverty, if you cut back on health and education, then the alleged savings in government cutbacks come back to haunt you, not only socially but also in lost economic potential.

CPU supports the maintenance and expansion of the social safety nets. We are proud to be part of a trade union movement that has fought hard for decent pensions, universal medicare, unemployment insurance, workers' health and safety, equality for women and environmental protection. Every one of these measures has been fought tooth and nail by employers. We recommend that employer groups and the political parties that represent these interests do a little soul-searching before they embark on a campaign to reduce everybody else's wellbeing.

Clearly, CPU believes the government acted properly in maintaining current social spending. CPU supports the government's employee wage protection fund, which guarantees wages, severance and termination pay owed to workers if their employers go bankrupt. We also support other govern-

ment initiatives such as pay equity for women workers, the building of subsidized housing, income stabilization for farmers, maintenance of services in our hospitals, schools, colleges and universities, the initiative to settle native land claims, increased financing for adult literacy programs and new funding to combat the cancer of racism.

We also support the government's \$32-million increase in funding for training and assistance in finding work for laid-off workers, although given the critical state of the economy, the magnitude of the job loss, as well as the federal government's cutbacks in our unemployment insurance, we had expected more support in this area.

In conclusion, the Canadian Paperworkers Union believes the negative reaction to the Ontario budget is misplaced. The size of the budget deficit is a direct consequence of the worst economic downturn to hit Ontario since the 1930s. The government has reacted by alleviating hardships on working people by maintaining social programs and necessary services in education and health. It has not fallen into the destructive trap of allowing our infrastructure to decay. It has not callously decided to force thousands of people into desperate poverty as has been done in the United States.

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When the economic recovery comes, Ontario will be set to benefit from the upturn. Of course, the Ontario economy is constrained by the conditions established by the federal government. On this score, it must be said that our economy will rebound all the more quickly the sooner our country is able to rid itself of the federal government and its destructive policies.

Mr Kwinter: Mr Guenette, thank you very much for your presentation. I notice on page 12 you say, "In fact, the largest part of the \$9.7-billion deficit is due to the recession." When you take a look at the budget, how do you account for the fact that the government projects that over the next three years, after this year, it is going to have an \$8.9-billion deficit in 1992-93, an \$8.4-billion deficit in 1993-94 and a \$7.8-billion deficit in 1994-95?

There is a common misconception that this number is staying constant and it is coming down. At the end of this year the \$9.7-billion deficit will be transferred to the debt. It will be gone; it will be part of the debt. Next year the Treasurer is coming out with a budget about which he says he is going to have an additional deficit of \$8.9 billion, and after that year that will get transferred to the debt. The cost of servicing that debt is going to go up by about \$1 billion every year. How do you account for that, when everybody predicts and the Prime Minister has already declared and Bob Rae has already agreed that the recession is over? Why are we going to have all of these additional deficits?

Mr Guenette: The simple answer for that is that I am not an economist. I know the problems that are out there with the people I represent, the hardship we have to go through with cutbacks, the hardship we have in trying to get people retrained and everything else, and something has to be done. My union is quite prepared to work to be part of the solution and basically that is where we stand. We are not economic experts.

Ms M. Ward: Thank you for your presentation. You represent workers over quite a wide area.

Mr Guenette: Trenton to Cornwall.

Ms M. Ward: Yes, right. What I would like to ask you is what you see for the future of this industry. Mr Kwinter just told you, I think, that the—no, he did not say the recession was over. He said Mulroney said the recession was over.

Mr Kwinter: And Bob Rae said it.

Mr Villeneuve: Bob Rae said it.

Mr Kwinter: He agreed.

Ms M. Ward: The recession being over does not mean that things are beautiful right away. It simply means that you have stopped going down; the decline has stopped. It does not mean you are back to where you would have been if the recession had not occurred. I think this is something that has to be acknowledged, just to get back to where we would have been if we had kept on growing and not gone into a recession.

That is what I wanted to ask you about, where you feel your members are going to be over the next year or so. They are certainly not going to be all back to work, I do not imagine. Given that some of them may have been laid off more than a year ago, will they be running out of unemployment insurance benefits because of the cutbacks we have seen in UI? Do you expect that more of them will be forced on to welfare in the near future? What circumstances are they going to be in?

Mr Guenette: You are quite correct in stating that there are a variety of my members out there who are at different stages, even though the recession is supposed to be over, like I said in my presentation. Domtar is announcing more cutbacks this Thursday. So we are being hit with more cutbacks and people will have to go on UI, and if it does not turn around, they will have to go on welfare.

We also have workers who have been laid off for over a year. The company has moved. I know personally quite a few of them who still have no job. There are some right now we are presently working on where the company just left town and we are working hard in trying to see what we can do.

I think the most important part of it is that there is going to have to be retraining of these workers. To give you an example, Columbia Finishing Mills, which is a small industry in this town, a few months ago went on a work-sharing program for which it applied. In their application they made the statement that they were the only Canadian bookbinding manufacturer in Canada. Unfortunately, since then an American company has bought them and manufacturing has been transferred to Tennessee. Regardless of the skills that these people have, now there is no work available in Canada, let alone in Ontario. So retraining programs are going to be very important for these types of workers.

The Acting Chair (Mr B. Ward): Thank you for the presentation and for taking the time to come and make us aware of the CPU's position on the budget. I am glad to see that you have stated you are willing to co-operate to find a solution for our economic troubles.

The committee recessed at 1206.

AFTERNOON SITTING

The committee resumed at 1400.

LEO COURVILLE

The Chair: The next presenter is from the NDP riding association, Mr Leo Courville, president. You have one half-hour for your presentation. Can you leave some time for questions and answers?

Mr Courville: I am pleased to have the opportunity to appear before you this afternoon to give you my views with respect to the 1991-92 provincial budget. I note on the agenda that I am designated as the NDP riding association president. This clearly gives you the advantage of knowing where I am coming from. Notwithstanding this affiliation, however, I would like to speak to you more from the perspective of a practising lawyer and member of the community in Cornwall and the area.

Cornwall is a community that has been plagued—I am sure you have been told this by other people appearing before—by a steady stream of plant closures over the past year and a half. By some estimates, we have lost as many as 1,500 jobs because of these closures. The types of plants that have closed include a wide spectrum of activity ranging from engineering and machinery production to chemical production through to textile, rubber and paper plants. I understand that many of the individuals who lost their jobs through these closures have now found other work in the Cornwall area.

I would like to commend the government on its initiative in assisting many of the people affected through plant closures, in this area and throughout the province, through some of the budget measures, including the allocation of \$32.5 million in training and assistance for laid-off workers and another \$32 million for adult literacy programs.

In this regard, a grant of \$600,000 for an assessment centre for the Cornwall area will be used to allow employment counsellors and educators to assist people in career placement here. The allocation of about \$215 million this year for social assistance reforms, which include assisting low-income and part-time employees, is most beneficial to Cornwall.

This is true for a number of reasons. First, many of the jobs associated with a number of closed plants were paying wages of \$15 an hour or greater. I understand that a fair number of people who have lost such jobs have now had to regain employment at a much lower hourly wage of between \$5 and \$9 an hour.

Until there has been extensive retraining of these people, and only if their circumstances allow for it, so that they can move into more skilled occupations, this form of temporary assistance is absolutely necessary. It will assist not only the individuals affected directly through their own job losses but also all of the small businesses and community enterprises dependent on the purchasing power of these affected employees.

It is also noted that francophones in Stormont, Dundas and Glengarry will receive \$152,000 to improve social services delivered in the French language.

A number of specific capital projects will create needed employment opportunities. The awarding of a provincial grant in the amount of \$447,535 to the Mohawk council of Akwesasne to build a small business mall next to the toll booth on Cornwall Island, in conjunction with the federal government, through the community Futures program will allow the Mohawk council to move into new areas of employment and wellbeing for its people. This kind of funding continues in the direction started in November 1990 when the Mohawk council received approval for grants totalling \$25 million over five years from the governments of Canada, Ontario and Quebec to fund some 11 projects, including a home for the elderly, an arena, a justice building, a business training centre and health and community recreation centres.

I believe these kinds of projects will go some distance towards lessening the tension that has sparked into open conflict on the reserve during the last year and has caused many of our native friends a great deal of stress.

The awarding of \$413,830 by the Ministry of Industry, Trade and Technology, under the eastern Ontario community economic development program, to assist Cornwall in undertaking a \$1.5-million project to reopen a two-block downtown area to vehicle traffic is noted as well. Many of the merchants whose businesses front on the mall are convinced that this will do a great deal for them in their businesses by opening the flow of traffic in the area.

This project, taken in conjunction with the new \$30-million government building, which could house as many as five provincial ministries as well as local civil and criminal courts, may well provide a further impetus to assist the sluggish local economy at this time.

Tourism and recreation in the area has received a boost with the allocation of \$1 million to upgrade Upper Canada Village and the various provincial parks. The construction of a new \$1.5-million travel information centre will also assist in providing hundreds of person-weeks of employment.

Further infrastructure upgrading for various Ontario Housing Corp projects will also benefit Cornwall. Recent grants for housing, in the amounts of \$690,000 and \$678,000, were announced on April 25 and May 3 of this year. In addition, the government has provided an interest-free loan of \$49,000 to logement La Nativité and has co-signed as guarantor, in effect, on a loan of \$3.3 million for the Cornwall Non-Profit Housing Corp to undertake a project which they estimate will provide 600 person-weeks of employment. A grant of \$286,400 has been made to St Joseph's Villa to link the extended care facility to apartments for residents in the villa. This will improve accessibility to a number of services for these residents.

In addition to the \$2.9 million for road construction in the united counties adjacent to Cornwall, the government has provided \$1.2 million to the Cornwall Transit Corp to finance 26 newly acquired buses and electronic fare boxes associated with these vehicles.

Even though the federal government has cut transfer payments in the order of \$1.6 billion to Ontario, the provincial

government would seem to be committed to maintaining its own level of funding to local school boards and not passing those costs on as a result of federal cutbacks. In Cornwall this is most apparent in the recent announcement of the government's plan to spend \$7.1 million in expanding the physical facilities presently shared by the SD&G public school board and Catholic school board at the twinned physical facilities of General Vanier Secondary School and St Joseph's school. Within this particular funding proposal the public school board will receive a \$2-million new double gym and \$567,000 to compensate for classroom space lost to the Catholic board.

In addition to helping resolve this long-standing impasse faced by both school boards with respect to the facility at General Vanier and St Joseph's, the government has approved a number of school projects locally as part of the anti-recession program. These include the expenditure of \$42,000 for the installation of a lift for the handicapped at Seaway District High School in Iroquois, \$600,000 for an addition to the Eamers Corners Public School, \$700,000 for renovations to the East Front Public School and \$425,000 for Sydney Street Public School—all of these are in Cornwall—as well as \$785,000 for Morrisburg Public School. The local school boards will have to pay for only about 25% of these needed renovations.

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While this assistance is most welcome, I respectfully submit that the government could further assist the local taxpayers by pooling commercial-industrial assessment between the public and separate school boards on a province-wide basis, as they do in Manitoba at this time, by basing the general legislative grants for subsidizing per-student costs on an approved-cost basis that is based on the average actual costs in the province. Cornwall is a relatively poor part of this province and it requires all the assistance it can get from some of the wealthier parts of the province. These are proposals that may assist in that regard.

Again, notwithstanding the cutting of transfer payments by the federal government to the province in the amount of \$1.6 billion, Cornwall has been able to receive a level of transfer payment funding which has allowed it to maintain a modest tax increase of about 5% for the citizens of Cornwall this year.

In the area of health care, any responsible government has to maintain cost-effectiveness in the spending of the health dollar. This means essentially maintaining a balance between dollars spent on acute bed hospitalization on the one hand and those spent on preventive medical applications and home care on the other. In the last three years, some \$24.7 million has been expended in the expansion of facilities at the Hotel Dieu Hospital and the general hospitals in the city. The government has recently announced a \$100,000 grant for Cornwall's healthy lifestyles program. The recently established placement co-ordination service has been funded in the amount of \$250,000 to assist people to find appropriate residential settings for their needs. There has been a \$55,000 grant for the establishment of an air ambulance for the Hotel Dieu Hospital in Cornwall as well.

There have been difficulties faced, I believe, by all hospitals in this period of declining government revenue

and increased needs. This has meant that some of the hospitals have closed acute bed wards for some period of time in the summer when many of their medical personnel are on vacation. Within the Cornwall context, it would appear that there is a need for a better integration of the existing hospital facilities providing for acute care needs in the city. Before the government can expend further funds in this area, it would be judicious, I believe, for the hospital boards to apply themselves towards rationalizing and integrating their various services. This is especially so when decisions must be made with respect to the acquiring of costly new medical equipment.

One problem that has presented itself in dramatic fashion in the last few years in Cornwall is that of cross-border shopping. At a recently held meeting of the Ontario Municipal Board to inquire into Cornwall's plans to implement a wave-pool-based aquatic leisure centre, it was revealed that a recent study had been done pertaining to cross-border shopping at the Cornwall crossing. An official of Canada Customs testified at the hearing that the number of declared items on a particular day in June 1991—I believe it was actually June 4, 1991—compared to the same day a year earlier, had increased in excess of 1,000%. That just gives us an idea of the magnitude of this problem.

The solution offered by the province, of establishing a fund of \$5 million to assist affected border communities, seems to be most appropriate in dealing with this problem. The tax structure in Canada, as we know, is fundamentally different from that in the United States, in that our taxes support publicly funded hospitalization and medicare. It is logical, therefore, that selective tax exemptions for border communities is an inappropriate means of dealing with this problem, in that they must lead eventually to an undermining of the very base that provides all Canadians with the present standard of living that we enjoy.

In Cornwall, there has been recent co-operation between the chamber of commerce and the Cornwall and District Labour Council to form a Cornwall Business Council. We see this as a very hopeful development. There has been an undertaking of a local survey to examine specifically the products being purchased through cross-border shopping. This also is an example, I think, of a local initiative to lessen this difficulty. But in reality there is only so much that a local community can do. I believe that ultimately the help needed will have to come from the senior levels of government.

In conclusion, it is apparent that the extent of the recession in the Cornwall area has been both widespread and deeply felt. The reliance of Cornwall on small- to medium-sized manufacturing plants that have come in recent years, primarily from the Montreal area, has meant that we have been particularly vulnerable to closure and relocation of such plants when the combined effect of high interest rates, a high-valued Canadian dollar, the free trade policy and the GST, have fully impacted on this community.

The need to diversify the Cornwall economy by bringing in a much greater public sector presence is certainly recommended. You have heard, I think, from another witness during your stay in Cornwall—John Milnes. I believe he has spoken to you with regard to the possibility of establishing an environmental institute in Cornwall to study the

effects of pollution on the Great Lakes-St Lawrence water system. In so far as this may provide a centre for attracting environmentally based industries, this may well provide an opportunity for the type of diversification that we need to ride out these kinds of recessionary troughs. I note that the provision of some \$131 million to assist businesses through new applied research and technology is there in the budget. This may be one source for the kind of funding that we need for this type of institute.

The overall direction of this budget, I believe, is a correct one for the times that a place like Cornwall is experiencing. Without it, the impact of the recession on Cornwall would have been much greater than it was. Thank you for allowing me to speak to you today. I am prepared to answer any questions that you may have.

Mr Villeneuve: Mr Courville, thank you very much for your presentation. With all due respect, you have outlined a lot of the things that had been budgeted for in previous years and allowed for, and which this government saw fit to continue. I certainly appreciate that. It is great that you have outlined them. There was a great deal of pomp and ceremony after the election when, I guess you were second best to my friend John Cleary. Who was the eastern Ontario NDP power broker? Are you still that person?

Mr Courville: I have no idea what that means, Mr Villeneuve. Maybe you can explain in your own words what you are referring to.

Mr Villeneuve: There was a great deal of concern even on the floor of the Legislature that Mr Courville was the person one should see to obtain favours from the government. I believe you made statements to the paper that yes, you would be quite willing to travel to Toronto and do those things. Is that still your mission?

Mr Courville: I am sorry, sir, I did not make those statements and anybody who says that I made those statements is not telling the truth. It is as simple as that. I have never made a statement saying that I would be willing to travel to Toronto to make representations.

Mr Villeneuve: There were write-ups in newspapers that certainly insinuated that. I was just wondering what your particular position was.

Mr Jamison: On a point of order, Mr Chair: We are here to ask questions on a report given by a presenter. I find that this question deals in no way with the report that was prepared by the presenter.

Mr Kwinter: Mr Chairman, on a point of order: If a former NDP candidate can present himself and read the government's program, we have a right to comment on it.

The Chair: Mr Jamison, we will let him carry on with Mr Villeneuve.

Mr Kwinter: You cannot have it both ways.

Mr Villeneuve: I will get right back on track. The provincial government saw fit to bring in some increases in fuel taxes, along with a fairly substantial budgetary deficit. Do you feel that this will any way address the problems of this community? They are particular to this community, with the community of Akwesasne, which is a tax-free residence for North American natives. How do you react to that?

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Mr Courville: I agree the Akwesasne situation presents unique problems for this area. A number of approaches may be taken towards offsetting the effect of the advantage presently given to the dispensers of fuel on the Akwesasne reserve. I believe the fact that many people go to the United States to purchase fuel may well be a factor that leads to other shopping in the US.

I noticed this morning—I caught the tail-end of your comments with respect to Ms Helena McCuaig—your reference to the production of ethanol. I think that in itself warrants a considerable study. I do not know to what degree cost would be involved in developing a feasible distribution network. Certainly the base in Stormont, Dundas and Glengarry and the neighbouring counties is such that it would be, I think, something worth considering. If ethanol can be produced as a viable substitute for, or at least a competitive product to, the products that are being sold on Akwesasne, that might assist in the problem. But I have no ready answer for that. I appreciate it is a very difficult problem.

Mr Villeneuve: The mayor expressed concerns that we no longer have through EODC an interest-free incentive for businesses in eastern Ontario. That is of concern. Cornwall has a unique problem, because fuel is the catalyst. Once the consumers and the customers are over there, certainly they are going to be buying. When we increase the taxes—and we did have a 10% advantage over the province of Quebec five years ago taxwise; now we have lost that. We are in a net deficit position. It even exacerbates the problem for this region. It is not an easy one to solve, but added taxes will not solve it. Large budgetary deficits, in my opinion, can contribute only to higher taxes.

Mr G. Wilson: Thanks a lot for your presentation, Leo. It is very thoroughgoing and provides us with a lot of information. As my honourable colleague pointed out, the newspapers provided us some information. But, as you suggested, it is not always accurate in what it says. Certainly that has been part of our experience with our budget. Some papers have tended to highlight some questionable aspects of it.

You mentioned something about the co-operation between the Cornwall Chamber of Commerce and the Cornwall and District Labour Council forming the Cornwall Business Council. I was wondering whether you could elaborate on that and say what it is doing—

Mr Courville: My understanding is that there was an attempt to come to terms with a number of problems facing all residents of Cornwall in the current recessionary period, whether they were small business-oriented or labour-oriented. One of the areas that the newly formed council focused on fairly immediately was the problem of cross-border shopping. I guess there were suggestions as to how this council might enlist the full co-operation of the community to deal with that. I am not apprised of the latest recommendations of the council. I know they have encouraged a survey to be undertaken of specific products and the pricing of products on both sides of the border, and what could be done to encourage the greater purchasing of those products in Canada. I certainly see this as the kind of

initiative that has to be taken at the local level. I think that in and of itself, it will not be sufficient. The real assistance has to come from the province and the federal government.

Mr G. Wilson: It seems to be an encouraging development. You do not always think of the chamber of commerce and labour council getting together on an issue. That would seem to suggest that when you have a problem that affects the whole community, you can find areas of co-operation that can lead to rewarding results.

Mr Courville: Certainly. The gravity of the situation in Cornwall may have well produced this. It is certainly a welcome development.

CANADIAN UNION OF PUBLIC EMPLOYEES,
LOCAL 1000

The Chair: The next group to appear is CUPE, Local 1000, Ms Linda Poirier. You have up to one half-hour for your presentation; try to save some time for question and answer. Would you identify yourself and your colleague for the purposes of Hansard?

Ms Poirier: My name is Linda Poirier and I represent CUPE, Local 1000, as the employment equity chair in division 6, eastern region. That covers an area from Vankleek Hill to Peterborough and north to Cobden. I also represent the members in my work unit as a steward. I will let my colleague introduce himself.

Mr Menard: My name is Bob Menard. I am the senior education and publicity officer for CUPE 1000.

Ms Poirier: On behalf of the Canadian Union of Public Employees, Local 1000, my colleague and I are pleased to have the opportunity to make a submission to this committee. Government spending and accountability are important issues to our members. As an introduction, I want to give you some information about the union I represent. CUPE 1000 represents 20,000 workers at Ontario Hydro who are responsible for the generation, distribution and maintenance of Ontario's electrical system. Our members live in communities across the province and work in occupations including nuclear first operator, maintenance trades and clerical technical functions.

Our interests in government spending are many. A healthy economy in Ontario means the continuing need for electrical generation and continued job security for our members. Programs sponsored by the government that create jobs and stimulate industrial growth are positive actions from this perspective. In addition, because our members value the communities they live in, there is a broader concern for government actions that ensure these cities, towns and villages maintain their viability through economic growth and development.

Our members, like most Canadians, are concerned about the quality of life that all members of society experience. Governments can do much to ensure the social safety net is maintained and available for citizens who find themselves without adequate support in tough economic times.

While it has probably been said during these hearings, it is important to note that those tough economic times are certainly a reality in Ontario at this time. Hundreds of thousands of jobs have been lost. Welfare rolls are increasing at

the same time as the dollars to pay for these impacts are declining. This creates a formidable challenge for the government of the day.

To its credit, the current government has not succumbed to the cost-cutting alternative that seems all too popular in this day and age. Ontario's government has chosen to view increased expenditures in tough economic times as an investment in Ontario's future. Rather than placing thousands of workers in the intolerable position of no job, no money and no future, the NDP has chosen to use its recent budget as a way of showing that people matter in this province. While there has been some criticism of this approach, from CUPE 1000's perspective sustaining the economy through government spending is the only choice to make while the impacts of changing trade relationships and federal government cutbacks work their way through the system.

As a result of the government's actions, most of CUPE 1000's concerns have been addressed. Money is available for job development and for temporary support to those most adversely affected by the recession. That means we can look towards economic growth in the future to keep our communities viable. It also means that the government has shown it intends to prevent the creation of a society that is divided into the haves and the have-nots. Finally, it means that the services our members supply will continue to be necessary for the future prosperity of Ontario.

With your permission, I would like to turn this submission over to my colleague, Bob Menard, to complete.

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Mr Menard: From our perspective, there are some areas that need emphasis to ensure the fair and equitable society that we all agree is our goal. As an example, the government should be placing emphasis on addressing the issue of pay equity so that the benefits of this legislation can apply to a broader segment of society. At Ontario Hydro a recently negotiated pay equity plan will soon deliver increases to employees in female-dominated jobs. This highlights the inequities that can exist in a workplace, even where a formal collective bargaining relationship has existed for over 50 years.

While the government should be congratulated for taking a valiant stand to fight the recession, it will come as no surprise to anyone that more work still needs to be done in the area of social service agency funding. CUPE 1000 and Ontario Hydro have established a joint employment assistance program that uses community agencies as the referral target. In many areas, particularly northern and other remote locations, the necessary services are simply not available.

The final point we wish to make in this brief has to do with the government's approach to setting policy. Under previous governments, some levels of the labour movement experienced difficulty in having their views heard as part of the consultation process. This does nothing to serve the public interest. It is our position that we should be given every opportunity available to be consulted on issues, either as part of a broader labour coalition or on a one-to-one basis with the appropriate government group. Due to the complexity of the issues and the complexity of

government operations, it is critical that the government of the day seek out our input, not vice versa.

During the course of these hearings much has been said about the role of government and business in meeting the challenges of the changing Ontario economic scene. There is also a valuable role that labour can play to ensure things get back on track as soon as possible.

For our own part, CUPE 1000 has been actively pursuing a more co-operative relationship with the employer. As a public sector union representing workers of a crown corporation, we feel we have a responsibility to ensure a reliable, efficient electrical supply to improve the industrial competitiveness, as well as represent our members' interest. Several projects are now under way in the corporation that attempt to balance these two goals that will hopefully pre-empt the need to use more traditional adversarial approaches to resolving employer-union disputes. If successful, CUPE 1000—and I should add Ontario Hydro—will be able to take some pride in the fact we have made our own unique contribution to the betterment of Ontario's overall prosperity.

In conclusion, it is CUPE 1000's position that the New Democratic government has made a smart and reasonable choice in its recent budget. While we have pointed out several areas where we have particular concerns, generally speaking, the government of the day has shown it can make the right choices for the betterment of the people who live and work in Ontario.

Mr G. Wilson: I would just like to get a couple of details first. What is the makeup of the workforce for CUPE 1000, men and women, respective numbers?

Mr Menard: Approximately 25% of our bargaining unit is female.

Mr G. Wilson: This is then a recently undertaken attempt, is it, at the employment equity program?

Mr Menard: The reference was to pay equity.

Mr G. Wilson: Oh, pay equity.

Mr Menard: Yes.

Mr G. Wilson: I see. I had also underlined the paragraph on the second page: to stimulate growth. I will just read it, it is short: "Our interests in government spending are many. A healthy economy in Ontario means the continuing need for electrical generation and continued job security for our members. Programs sponsored by the government that create jobs and stimulate industrial growth are positive actions from this perspective." I am just wondering how active your union has been in consulting with governments in the past, and can you mention anything specifically in what you have done or maybe, Mr Menard, through your educational program, has this been a component of your dealings with your membership?

Mr Menard: I am not clear on the question.

Mr G. Wilson: What kinds of programs have you thought we should be developing to create jobs and stimulate industrial growth?

Mr Menard: The kinds of things that make sense to us are industries that first of all, as was mentioned earlier this morning by Gord Wilson, are committed to this prov-

ince. Second, I think it is important that the industries that should be brought into the province should be focusing on sustainable development, industries which take advantage of the technology and the skills of our workforce to create the kinds of products that will be available and useful on the world market, rather than simply dealing with raw resources. Any more detailed than that I would not be able to supply at this time, but generally, they should take advantage of the fact we have a province where there are a lot of skilled people, where there is a lot of potential for growth, where there is certainly the need to have people locate, and taking all those factors into consideration, adding them up and looking for people who could supply that kind of work.

Mr G. Wilson: It strikes me that Ontario Hydro began with that kind of co-operation between government and business and workforce, of course, that it was a public institution. I am just wondering, does the tradition continue? Do you still feel that you have an active role in the—

Mr Menard: There is a reference later on in the brief that talks about the co-operative efforts we are trying to establish with Ontario Hydro in terms of ongoing labour relations. Basically, what we are trying to do is to say that we supply a very valuable service to the economy of the province, and frankly it makes a lot more sense for us to get our act together internally and keep that in our minds as an important goal.

Once we have established that as the goal—and we have in a number of different instances—and once we have gotten over the hurdle of the employer being willing to take advantage of the knowledge and the expertise the employees have in suggesting ways of achieving that goal, we have had very good results in terms of setting aside and resolving things that in the past might have led to severe and prolonged labour problems. Everybody is very sensitive about it right now in terms of it being a new project, just starting out, trying it out, getting along; and there is certainly a lot of fears on either side. But generally speaking, where we have tried these kinds of procedures, they have been very, very successful. They are driven by two things: (1) that we have a service to supply, and (2) that the people who work there, the people we represent, have an awful lot to contribute to making that a viable, reliable, efficient business.

Ms M. Ward: I wanted to ask you quickly about the joint employee assistance program. You say CUPE and Hydro have established this jointly, and you use community agencies as referral targets. I wonder if you could give me an example of some of the types of services. You also say that some necessary services are not available. What is the usage and what is the need?

Mr Menard: You have to understand that one of the principles of any employment assistance program, particularly when it is a joint program, is that confidentiality is very important. So we do not collect statistics of usage.

What I can give you is some anecdotes—

Ms M. Ward: No, I meant the type of service.

Mr Menard: Yes, I can give you some anecdotes of the kinds of things that we have experienced. Things as simple

as being able to get marriage counselling in some communities. There is either nothing available or it comes with a fairly heavy fee because it is done through private people.

Other things get a little more complicated, such as substance abuse: being able to arrange for treatment that does not require a lot of travelling, a lot of time away from work, a lot of unnecessary activity; being able to find people the kinds of counselling they need in their communities. Those are two examples that stick out.

We have instances in both cases where we have had to go to great lengths to make accommodation. One of the things we try to do is get the service supplied without a lot of activity. It is sort of quiet, confidential "Let's talk about this and we can connect you to a social service agency." If it is not available, we have to get in touch with the employer, and then a whole bunch of other people get dragged into it, and you start having troubles with your confidentiality, and people have experienced on occasion some lengthy waiting periods. If they were in an economic situation where they could not afford to pay for private counselling, they would have to wait a fairly long time to get access to it.

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Mr Kwinter: In your presentation on page 4 at the bottom of the page, you say "We feel we have a responsibility to ensure a reliable, efficient electrical supply to improve industrial competitiveness as well as represent our members' interests." Do you not agree that as well as reliable and efficient it should be economical?

Mr Menard: Yes.

Mr Kwinter: I would say that one of the comparative advantages that Ontario has enjoyed over the years is the availability of relatively inexpensive hydro, which has given us a competitive advantage over many of the other areas that we compete with. Would you agree with that?

Mr Menard: Yes.

Mr Kwinter: Okay, could you tell me your comments as to how you feel, as a member of a union that depends for its very existence on the health of Ontario Hydro, about the government deciding to use hydro as an economic tool? I will give you two examples. One, notwithstanding that the minister responsible said she would not buy uranium from Elliot Lake because the cost was prohibitive, the government made a decision that notwithstanding that we will continue to have Hydro buy that uranium at prices that are not competitive.

Two, the situation up in Kapuskasing where Hydro had said they would not buy this power plant without an environmental assessment, the government has said, "Yes, you will buy it," and as a result put \$130 million at risk. All of these things impact on the cost of hydro eventually because the mandate of Hydro, I am sure you know and you will agree, is to provide hydro to the consumers of Ontario at cost. That cost depends on what your costs are. The minute you add these extraneous political forays it is going to increase the cost, which means everybody is going to be paying more for their hydro. As a matter of fact, Hydro has already said its rates could go up substantially. That of course would put us at a competitive disadvantage, which

is going to impact on your membership because you are not going to be around. How do you respond to that?

Mr Menard: That is a good question.

Mr Kwinter: I am looking for a good answer.

Mr Menard: We will see what we can do. One of the things I think is unique about Ontario Hydro—and answering both your questions, one about the economics and then your statement about the cost—is that as a crown corporation the mandate includes, in my mind, also the responsibility of looking at a broader public good. There is a close association between Ontario Hydro and the government, and it has been recently strengthened. Apparently in these instances the government has felt things were needed to improve the social climate, the economic climate, in certain locations, and they felt the best people to deal with those issues were in fact the electrical energy experts of the province, Ontario Hydro. So they have made that kind of decision.

In terms of the overall impact and Ontario Hydro's viability, it is true it is a business, it has to be economical, it has to be efficient. But that mandate of supplying electricity to the province also includes taking a look at those kinds of things that are necessary to deal with issues beyond straight economics. I guess one of the things we could talk about in that reference would be supplying electricity to northern communities and communities where it would never be economically viable to run a line and deliver electricity. Ontario Hydro takes on that responsibility as part of its broader mandate of making sure there is a certain level of quality of life in this province.

So, those things you mentioned, while they are immediate and they do add a lot of dollars, have to be taken into consideration when you look at the corporation's overall operations.

Mr Villeneuve: The former minister, Jenny Carter, agreed that if indeed a 40% increase in the cost of hydro was to occur in the near future, "Well, if it has to be, it has to be." Now, 40% is quite a substantial increase. How do you as a group of unionized employees feel about that? Is there anything you can do to alleviate this for the long-suffering taxpayer and users of hydro in Ontario?

Mr Menard: Yes. I mentioned earlier that we are trying to deal with the employer in a more co-operative fashion to, first of all, resolve some of the difficulties we may have had in the past in terms of traditional labour-management disputes. What that leads to, and Ontario Hydro will confirm this, is a better-quality product and it leads to better productivity because then you have people coming to work in the morning who feel good about what they are doing, who have the obstructions that may have been in their way in terms of getting their job done removed and who overall deliver a much better product in terms of their skills. This has only been a recent thing and I could not give you a specific percentage as to what kind of impact it will have in the overall cost of electricity. But I can certainly tell you that from our perspective, if it works, you are going to see a much more effective corporation, a much happier employer and a much better product overall.

Mr Villeneuve: Mr Milnes, who is a highly respected environmentalist, was here this morning and he spoke of waste to energy. I believe in Bristol, Connecticut, he visited a certain generating plant where the waste from a 250,000 population generated enough hydro to run a city of 15,000 homes, which is basically the size of the city of Cornwall. This is waste to energy, non-recyclable waste. Would you be supportive of a project like this?

Mr Menard: I am not in a position right now to talk about those kinds of changes to the corporation's mandate. I will give you the concerns we would have about those kinds of things. First of all, one of the things we would want to ensure is that there was some kind of public ownership of that facility, because we are very strongly committed to the belief that public is better than private when it comes to energy production. There are a whole bunch of different factors that go into that, and we feel very strongly about the need to keep that control available. There are a number of other alternatives that are being looked at as well. We have not yet discussed with the corporation what our position might be on that.

Mr Villeneuve: One final question. I refer to the statement that my colleague Mr Kwinter referred to, "to ensure a reliable, efficient electrical supply to improve industrial competitiveness as well as represent our members' interests." I remember about six months ago a very professionally done pamphlet was received by all employees of Ontario Hydro which strongly encouraged them to support the government financially and to actually be card-carrying members of the NDP. Is that part of your mandate?

Mr Menard: There is possibly a bit of misinformation on that particular topic. What we were doing was asking our members whether or not they felt it was important for CUPE 1000 to affiliate to the New Democratic Party. We never asked them to join the party per se, and we never asked them to make financial contributions. We had a referendum and the majority of our members felt that it was a sensible thing to do at the time.

Mr Sterling: How much money will your local be supporting the NDP with?

Mr Menard: The affiliation fee is 20 cents per member per month and the local has chosen to affiliate 50% of the members, to pay affiliation fees based on 50% of our membership. At the time that we affiliated it was 9,300 employees who are union members that we were calculating on, so it would be something in the neighbourhood of \$1,800 a year, if my math is right.

The Chair: I would like to thank you for your presentation.

1450

ARTHUR CARKNER

The Chair: The next presenter is Mr Arthur Carkner. I would like to welcome you. You have 15 minutes for your presentation. If you wish, you can leave some time near the end for a question-and-answer period.

Mr Carkner: My name is Arthur Carkner and I live in rural route 1, Winchester. I wanted to make some remarks today about the impact of the budget on Dundas

county, the area where I live. I have not made a very formal presentation, but I will touch on some of the areas that have a particular impact, like health care, education and pay equity.

Mr Kwinter: Mr Chairman, on a point of order: Can the record also show that this man was the NDP candidate in the last election?

Mr Villeneuve: No, in 1987.

Mr Kwinter: In 1987? Sorry.

Mr Villeneuve: It seems like ages ago, Art.

Mr Kwinter: I think it is important.

Interjection: It is important?

Mr Kwinter: When you consider that today we have heard from three of them.

The Chair: I have to say, we have not asked whether they are Liberal or Conservative or New Democrat.

Mr Kwinter: No. But if they were candidates, I think it is important.

The Chair: You can ask that question in the time you ask questions of the presentation, if it is in the presentation.

Mr Christopherson: Mr Chairman, to some degree it is not unlike the Tory candidate who came forward. It was acknowledged in the presentation. I think if somebody wants to raise it in his questions, fine.

Mr Sterling: One Tory and a dozen NDP.

The Chair: Okay. Let's give the gentleman time to make his presentation and questions can be asked of him. Continue, please. Sorry for the interruption.

Mr Carkner: I barely got started, but I will attempt to continue, thanks.

The criticism that I have read about the budget centres on some of the high-cost aspects of it. When you look at a rural area like ours, there are a number of aspects in the provincial spending which are quite important. There are not a lot of choices of jobs in small communities and what jobs there are are important to people.

Despite the welcome I received from Mr Kwinter, I do not intend simply to say what is good about it. I would certainly like to say there are things that I would like to see more of in future. I am appreciative of the fact that the provincial government, in a time of economic difficulty, is continuing to spend money. There are a number of people in our area who are commuters to Ottawa, for example, and they are faced with the fact that whenever the economy is difficult, the federal government does not wish to meet its legal obligations in terms of pay equity. The province has not chosen to follow that particular course.

When you look at people who work in things like the Ontario Hydro office in Winchester or various provincial institutions in the county, it is important to those highly female-dominated groups of employees that they can get justice even when economic times are difficult.

That has had a two-edged effect, however, on things like the Winchester District Memorial Hospital. The pay equity settlements for nurses, which I think are overdue, also put particular pressure on the only hospital in the county, and just as it is a fair distance to get down here for

a committee meeting, it is a fair distance for people to go to any urban area to get health care. Community-based health care is quite important, so while local residents, I think, were in favour of nurses getting fair treatment, it continues to pose a problem for the hospital in terms of its funding.

If the provincial government were to feel, due to the criticism, that it could no longer afford to meet its social obligations, I think it would fall particularly harshly on rural areas. Yes indeed, I am and have been a candidate. However, I am someone who has grown up in that area, and my family goes back there for many generations, so I think I have as much right as any other citizen to speak to this committee.

When we look at the effect of pay equity on local people, I think it has been beneficial. When we look at the effect that the federal cutbacks have had on a number of local residents, they have been primarily negative. When we look at the fact that the local association for community living—formerly the association for the mentally retarded, and of which I am secretary—has had its funding continued this year and continues to be funded, this has certainly not made any local residents rich; but when you look at the fact that these local residents were earning in some cases half as much as people doing the same work in urban areas, it was particularly important that the funding was continued in difficult times. These are people who were not rising quickly when times were good, and to see them slapped back when times are difficult economically would have been very unfair. The tax rates, after all, are the same in rural areas.

I am glad to see there has been some money allocated for education, but again we have our particular problems in rural areas because of distance and because of the low property tax base. In our particular area, for example, although the township of Winchester is a recognized bilingual area, we have a great deal of difficulty, because the public school board only provides French-language education in the city of Cornwall. We raised this with them when they made this decision, and they said we could bus our kids two hours each way to get that choice in education. It is the same two hours from that end of the riding to the other end as it is back. It is the same distance both ways, but they do not seem to want to truck their kids two hours in the morning and two hours at night.

Yes, there is a recession on, and yes, things are difficult, but in rural areas, provincial spending on things like education and health care and pay equity have been quite important and remain quite important to local residents.

The other aspect I think is regrettable about the education is, as I have said, we do not have the property tax base. There is a certain irony in the fact that there is a sufficient tax base to, let's say, provide for education in a public school in French in a well-to-do suburb of Toronto when it cannot be provided in a recognized bilingual area in eastern Ontario where in fact people have neighbours who are francophones and people aspire to work in both Cornwall and Ottawa, which are areas in which not only government institutions but commercial institutions expect to have bilingual staff.

Those are some of the things that I think are good. Some of them are continuations of previous policies instituted, for example, by the Liberal government, and I appreciate they have not been cut back. You will forgive me for mixing a bit the federal and the provincial perspective, but when you live close to Ottawa, sometimes both levels of government are quite significant. We appreciate that pay equity was brought in, and not simply introduced by the NDP, but continued. In the federal realm, for example, pay equity was legislated, but during a previous economic downturn, salaries were decreed, and that fell particularly harshly on female employees.

These are the points that I wanted to stress today. I realize that it is a difficult time economically. None the less, I would like to bring it quite sincerely to the attention of all committee members here that cuts made in spending have a disproportionately harsh effect in poor rural areas. While I am not suggesting that we are a raggedy-ass area, on the other hand Dundas county is not an area that has high employment and the publicly funded institutions here are quite important to people.

I would like to give the opportunity for questions now. As I say, it is not very formal, but quite a sincere set of comments.

Mr Villeneuve: Thank you very much, Art. Thank you for taking time and coming to make your presentation. You touched on the Winchester District Memorial Hospital. It is having some very difficult times, it has an operating deficit of some \$500,000 and it just cannot seem to pick it up. We had the Ontario Hospital Association this morning tell us that the new labour law being contemplated by the provincial government will simply contribute to more problems. They also told us that the legislation requiring some of the things you have touched on, ie, pay equity, employee health tax and all the rest of it, was basically mandated to them with nowhere near enough funding.

This is a problem for our school boards, for our hospitals. We are in an assessment-poor area, and you have touched on it and you have explained it very eloquently. Do you really feel that this \$9.7-billion deficit, culminating in an almost \$35-billion new debt for the province of Ontario in four years, will indeed address some of the problems you have touched on, or will it simply mean more taxes for our children and those that will be coming into the workforce?

1500

Mr Carkner: I would like to contrast it with the approach of the other level of government in our area, the federal government. What they are saying is that because it is a difficult time to raise taxes because the economy is low, even when you can show that women have been discriminated against you can continue that discrimination because times are difficult. So when times are good you underpay them, and when times are bad you simply have a better excuse to underpay them.

It will be difficult to pay off the debt because we have been faced with a high-interest-rate policy, and I think that is a major contributing factor. When we look at our country and at the infrastructure in terms of roads and schools and

hospitals, none of these things were built and none of them could have been built on double-digit interest rates. I would say that the public sector has the same right and obligation to spend and borrow prudently as any individual does, but the notion we get now that individuals can have a mortgage and companies can have an operating loan but governments can never borrow to finance health, education, social spending, roads and so forth, is simplistic to the point of foolishness.

Mr B. Ward: I will be very quick. I would like to thank you for taking the time to come out and express your views when it comes to our budget and our initiatives. I would like to point out the process of the selection of individuals such as yourself. There was a subcommittee formed of the main committee here, consisting of one Liberal, one Conservative and one New Democrat. They went through all the applications and made the decision on who would be allowed to present and who would not, because obviously we had more people who wanted to contribute and little time to do it in. I think that Mr Kwinter and Mr Sterling were part of that selection, were they not?

Mr Kwinter: On a point of order, Mr Chairman: So far today we have had three former NDP candidates. We have the president of an NDP riding association coming up next. The point I am making: When these names came forward, they were just names. You had the obligation to say, "You should know that these three guys were NDP candidates." That is my point. He has every right to come forward, but he also has an obligation to say, "Look, I should tell you that I was an NDP candidate."

The Chair: Mr Kwinter, could I ask the clerk here a question? Was there anybody cut here from Cornwall?

Clerk of the Committee: No.

The Chair: There was no one cut from Cornwall. Everybody who had put his name before the list is appearing.

Mr Kwinter: Then that defeats his argument that we had a choice. Everybody who came forward came forward.

The Chair: That is correct. I just wanted to get the record straight.

Mr B. Ward: My question to you is on the budget. When you are talking to your friends and neighbours, is it the feeling that we are on the right track, based on the other discussions? I know they are concerned about the deficit. I think everyone is.

Mr Carkner: It is a rural area. There are a lot of people who are concerned about the deficit, but they particularly value things like the hospital. There have been community fund-raising drives, and people just know they cannot raise enough money through brownie sales or concerts and things to fund it. I would say that the people in our area have conflicting feelings about it. They do not like to see a budget, particularly with the kind of interest rates we pay—it is a frightening sum of money. On the other hand, those are services that people need and value.

A. TREVOR TOLLEY

The Chair: The next person to make a presentation is Mr Tolley. I am sorry for the change-around we had from

this morning till this afternoon, but I am glad you accommodated us because of the problem we had this morning. You have 15 minutes for your presentation. If you can, leave some time at the end for question-and-answer period.

Mr Tolley: Very good. Before anybody asks me, I will say that I am president of the NDP riding association for S-D-G & East Grenville.

Mr Villeneuve: And a good one, too.

Mr Tolley: Thank you very much, Noble. It has been a pleasure to oppose you for so many years. I have been in politics, in fact, a little longer than some of you. I think I have been in this position for 15 years. But I would also qualify it by saying that I live in Williamsburg township, which is one of the most Conservative areas in the riding. Even Ed Lumley could not get many votes in Williamsburg township.

Mr Villeneuve: With Johnny Whittaker at the helm.

Mr Tolley: With Johnny Whittaker at the helm, yes. But nevertheless, the voters of Williamsburg township have been happy to elect me as a councillor despite my views and despite their views, and I think they are reasonably happy with me. So perhaps my positions are not as entirely partisan as my title might suggest.

But having said that, I would like, first of all, to thank you for the opportunity of addressing the committee. I want to speak about the budget as a resident of the county of Dundas, an area that suffers from chronic unemployment, and as a municipal councillor from Williamsburg township, where, along with other members of council, I have a responsibility for deciding the level of taxation in our municipality.

I want first of all to outline the currently accepted wisdom concerning economic problems of our time, which has been the basis of the criticism of the budget, and to show the bad results that such economic thinking have produced at the federal level. I want then to point out that the NDP has had the courage to turn its back upon the currently accepted economic wisdom to take a different approach, and I want to show the good this has done in our region.

In order to give a true picture of the impact of the budget in this framework, it is necessary to rehearse a few well-known facts concerning the budget. Any proposal for expenditure can be assessed only in the light of alternative possibilities. In the case of the NDP budget, a very clear alternative has been widely canvassed: that of a balanced budget. This was the choice the NDP government could have made had it considered it a wise one.

The decision not to take this course was, as you all know, not a profligate one. The proposed deficit of \$7 billion was occasioned first of all by a predicted fall in revenue brought on by the fall in economic activity due to the recession, a fall in revenue of around \$3.7 billion. In addition there was a fall in transfer payments from the federal government, brought about by the federal government's attempts to handle its own economic deficit. This drop in transfer payments amounts to \$1.6 billion.

I should like to return to these two points shortly, but for the moment I would remark that for the NDP government to bring in a balanced budget would have been to react to

these cuts in revenue by passing them down the ladder, either by cutting its own programs of spending in the province or by cutting its grants to municipalities. This would have resulted in a worsening of the economic situation throughout Ontario, a lengthening of the recession, and many problems for municipalities, quite apart from the obvious human suffering that would go along with that type of program.

The criticism of the relatively small deficit of the Ontario NDP government—relatively small in comparison with that of the federal government and some other provincial governments—has been that it is fiscally irresponsible. This has been the view of the business sector and of many economic experts. Not all economic experts, however, have been critical. John Kenneth Galbraith, an economist of high standing and one whom Pierre Elliott Trudeau admired and quoted, contended that the NDP government was the only one doing the right thing in this recession: spending money on activities that would, through wage payments, put money immediately back into the economy so as to stimulate economic activity.

This essentially Keynesian view has a long history of economic respectability in this century, but unfortunately it does not represent the dominant economic preoccupation today. Inflation has become the reigning concern, a concern very proper in times of prosperity. The present federal government's economic policies have been dominated by an unwavering concern with inflation, which in recent years in Canada has not been a major problem.

1510

The present governor of the Bank of Canada, on appointment, announced his intention to put an end for ever to the problem that has been with us for as long as can be remembered. With inflation at a very low level, he announced an aim of zero inflation and put up interest rates. When external factors did generate an inflationary pressure worthy of response, he had no option but to raise interest rates higher, generating a potential recessionary pressure. When he attempted to correct for this by lowering interest rates slightly, there was a run on the Canadian dollar because financial markets could perceive no economic reason for his change of policies. In this lay the seeds of the present recession. Interest rates rose in response to rising US interest rates, and the excessively high differential was maintained as the federal government emphasized its commitment to fight inflation even when it was certain that the incipient recession would bring down interest rates, and even when the higher interest rates had the effect of increasing the servicing costs of the already dangerously high federal deficit.

The origins of this deficit seem now forgotten. In fact, the comparatively low federal deficit in the 1980s was made the strangling monster that it is by the universal and ill-focused concern with inflation in that period. Canadian interest rates rose to 18% and 22% in those days, making payments on the deficit unhandleable. The focus was on the money supply then defined by economists. As interest rates rose, the money supply seemed strangely recalcitrant. Economists have since decided that the money supply was wrongly defined and targeted at that time. The result was a

bad recession with a fall in revenue and an outrageous cost of servicing the federal deficit that resulted, by the end of the recession, in a deficit that was quite manageable. Yet this course of policy, fighting inflation by raising interest rates whatever the circumstance, has remained a respectable economic course in financial and business circles and of the Conservative federal government.

In fact, however, some economic organizations of great respectability have come out to say that we cannot pursue this policy of controlling inflation by raised interest rates, leading to recession and widespread economic hardship. It is like proposing partial asphyxiation as a remedy for hyperactivity. It reminds one of 18th-century medicine, where the remedy for fever was to bleed the patient by the application of leeches. Some patients got better; they had the stamina to survive both the treatment and the disease.

In this framework it seems to me that the NDP government is not to be blamed for ignoring the problem of inflation in a time of recession and in attempting to stimulate the economy by a mild deficit. We can imagine what the consequence would have been for eastern Ontario had they not: Government programs would have been cut back and grants to municipalities decreased. Government programs, both of direct payments and those with the government as employer, are very important in this area. The St Lawrence Parks Commission, for instance, is an important employer. So too are municipalities.

In Williamsburg township, where I am a member of council, our main expenditure is on roads. We are very proud of our road program. By prudent management we have the highest percentage of blacktopped roads in the united counties. A cutting of government grants would have meant a cutting of employment on road work. In fact our road grants were enhanced, with the resulting expansion of our blacktop program. This made a notable contribution to economic activity in our area.

This may sound as though we are rolling in gravy at provincial expense. This is not so. Of every tax dollar collected by Williamsburg township, approximately 66% goes to the school board, 11% or so goes to the united counties, and the township keeps about 22%. The demands of the school board have gone up, as have those of the counties, in part due to the higher demands for welfare payments due to the recession. Williamsburg township, in part because of its road grants, was able to keep its portion of tax collected the same as in 1990 in actual dollars collected. This was salutary by any standards, but it also had the effect of putting less pressure on people's disposable incomes, again sustaining the amount of money available in the local economy.

I have tried to show that the recession and the federal deficit were in large measure due to a mishandled and unswerving preoccupation with inflation. The NDP has courageously turned its back on such policies and has taken the unfashionable course of stimulating economic activity, the only real source of economic well being. This has been felt in our region by the fact that government expenditures in the region and grants to the region, so important to its economic life, have not been reduced and

have, in some cases, been enhanced. We feel that the NDP is to be congratulated.

Mr Villeneuve: Thank you for coming and making, I think, an excellent presentation that was not all negative. It was in great degree positive and we appreciate that, Trevor. The major problem here is that you say "a relatively small deficit." Well, \$9.7 billion is relatively small when compared to the Ontario economy, but by the year 1994-95, according to Mr Laughren's budget, we will have doubled the actual total amount owed by the province of Ontario. We will be going from approximately \$40 billion now to some \$75 billion or \$80 billion, depending on how clear the forecasting is. That starts to be substantial, I suggest to you, Trevor. We all say that the federal government is not handling the deficit right. Well, we will have whomever is the government following this particular government, facing basically the same problem that they now face at the federal level. Do you not think that is alarming?

1520

Mr Tolley: Well, Noble, there are a few things I would like to say in response to that. First of all, it seems to me that, as I tried to indicate here, the real difficulty of managing the federal deficit has arisen from the fact that the federal government has pursued this high interest rate policy which has really hit back upon them, so that the cost of servicing the deficit has gone up and up. I would certainly, myself, be disturbed to see a similar scenario work out in Ontario. I appreciate the remarks you make concerning the predicted possible increase in the indebtedness of Ontario which is, in itself of course, not laudable, though in connection with the policies with which it is associated it could be seen as justified. However, when one looks forward to a predicted increase in debt, for instance, one also has to look forward to it in terms of the predictable increase in the gross provincial product and also the predictable decline in the value of money. So if one has scaled it down in terms of those things, it would perhaps be less frightening than it seems to be. It does not seem to me to be a completely frightening or negative thing.

Mr Cleary: I would like to thank you for your presentation, Mr Tolley. It was one of the better ones we have had today. I did not realize that Williamsburg is only keeping 22% of their tax dollars. I did not realize it went that low.

Mr Tolley: You share your puzzlement with many of the voters because when you go around to see them they say, "Why are my taxes so high? I do not get this, I do not get that." If they turned over the tax bill they would see the pie diagram on the back. What was the reason for your observation?

Mr Cleary: I have followed that very closely in the county system for many years and I had thought the majority of them were around 27%, but I could be wrong.

Mr Tolley: Yes, that is the case. And I myself proposed to the council that we should attempt not to increase our cuts this year, even though it is not going to have a tremendous effect for the residents because the school board is having to take more, and so are the counties. But we are taking, in dollar terms, the same as we took last year.

DELORES JENSEN

The Chair: I would like to welcome you to the standing committee on finance and economic affairs on the budget review. You will have up to 15 minutes for your presentation and at the end, if you could, leave some time for a question-and-answer period.

Mrs Jensen: My name is Delores Jensen, I am a senior citizen in the area and I want to welcome everybody to Cornwall. I have a written presentation; I will read it to you.

I believe this is the worst recession that has ever hit Ontario in my lifetime. A recession in Toronto means a depression in Cornwall. This area has been devastated by free trade, unemployment, bankruptcy, the GST, the high dollar, cross-border shopping and major controversies.

There is a saying in Cornwall that the province ends at Kingston. We here in Cornwall are hoping this trend will be changed soon. After having lived in Toronto most of my life I tend to agree with this saying.

I was very impressed with and proud of the budget. This budget is necessary and Mr Rae had no other option. During a war, deficit financing is acceptable. In this area we are at war with poverty. Cornwall has one of the lowest pay scales in the province, that is if you are lucky enough to still have a job. It is the reason that many of the residents of Cornwall are forced to go out and find jobs and return at retirement. We all care very highly for our city, but we do have a lot of problems.

Mr Laughren made the choice to fight the recession instead of the deficit. Now, Mr Mulroney is proclaiming 1992 a growth year. This would not have happened without Mr Laughren's courage, vision and foresight. Ontario has 37% of the population and 40% of the gross national product. Tough choices will have to be made in the end.

In Ontario we have another problem lurking ahead. Our social assistance system is being jeopardized by the federal government capping transfer payments to the province. During free trade negotiations, social programs were called subsidies. This is just another step toward depriving citizens of our social programs. My reason for approaching this board is to focus attention on the senior population in our city. The population of Ontario seniors is said to reach 14% in the year 2001. In Cornwall, the future has already arrived. We reached 14% in 1988 in Cornwall. We want to impress on the provincial government that Cornwall and area is in great need of help with senior problems.

In 1988, the area had 6,712 persons over the age of 65; 4,122 were women and 2,590 were men. In the three united counties there are 8,687 seniors. Ontario has over one million seniors and the seniors are the fastest growing group in our society. Maybe it is time to have our own caucus at the political level.

In Cornwall we have 14 small seniors' clubs. Most of them are operating on linguistic, religious or political lines. The lack of employment opportunities has left many women retiring in a very vulnerable position. Nearly two thirds of seniors here in Cornwall are women. Unfortunately, illiteracy has helped to maintain and encourage abuse of the elderly; 68% of seniors in Cornwall are designated as functionally illiterate. This situation causes exploitation of the elderly in many forms: physical, mental, medical and

financial. Being able to live in a secure and safe environment is a concern for seniors.

A more innovative approach is needed in the area of housing for seniors. Infrastructures must be reinforced if we wish to have seniors remain in their homes. Programs available to seniors such as the Ontario home renewal program, non-profit housing, home sharing and support homes should be publicized to make seniors more aware of the possibilities.

Many of us who have retired have quite a few productive years ahead of us and we would like to volunteer and help our fellow seniors. Mr Rae made a commitment at the Ontario senior conference in Kingston that long-term care and support services would be implemented. It is now long overdue. Self-reliance should be encouraged for seniors so they stay in their homes as long as possible and delay institutionalization. Respite and support should be available around the clock and not from nine to five.

Incentives for care givers or family members, such as tax incentives or a salary, might be pursued. Homemakers or attendants deserve a decent wage. They will be in greater demand in the future. Most of them are looking at this as part-time work; we have to start having them look at this as a job they can stay in. The wages have to be adequate.

More participation in recreational and sporting activities might make sure seniors stay well as long as possible. Publication of a local information guide or newspaper advertising is needed. Caring and sharing programs could be developed as the need arises, such as a telephone reassurance program to assist seniors staying in their homes. Public meetings with our board of health and legal help are needed for seniors.

The city of Cornwall has major difficulties recruiting doctors. Instead of incentives to doctors, one of the local hospitals should be designated as a geriatric and gerontology centre with proper staffing, specialists, equipment, diagnostic centre and a lot of new programs. This happens in Toronto all the time where they actually have special groups like that. Maybe our American friends would be ready to come, in the same way as the Rudd clinics, Shouldice, all these places where they encourage Americans to come over.

Seniors and disabled persons have no ministry of their own. Several ministries can be involved in any one project. A piecemeal approach has been developed. Many programs are duplicated and overlapping is evident. Respect for the public purse is scarce.

Grants under \$30,000 are not recorded in the public accounts registry; this encourages abuse. If tough choices have to be made, this is the area where most savings could be made. Stricter criteria are needed. I attended an elder centre conference in a plush hotel in Toronto where 80% of the people there were administrators and 20% were seniors. Price was a hindrance for seniors to get there.

I have travelled quite often in Scandinavia where secular humanism has built a social system that is respected worldwide. Division should be discouraged in our area. Emphasis should be placed on senior needs. The task is immense. Volunteering should be encouraged and respected. More open meetings and community involvement

are in order. The government cannot do this alone. With our own senior ministry it will be easier to see if seniors are getting their fair share, which they have earned, and if funds are spent effectively. This is a necessity because if you look at all the programs, there is overlapping and all kinds of things happening to the seniors.

Thank you for your time. If you wish more information, I will answer any questions.

1530

Mrs MacKinnon: I wish to thank you for coming forward, Mrs Jensen. You are the first one I have heard to come forward in defence of seniors. Being a senior myself, I really do empathize with you and I want to congratulate you for a wonderful presentation. I would like to ask you whether you could tell me what services are available in this general area for seniors.

Mrs Jensen: It is piecemeal. I happen to be French Canadian. There are divisions along political and linguistic lines. We have all kinds of small clubs but nothing that is big enough to make a difference. Everybody has his or her own program. I am sure all your ministries are giving money to senior programs, but how do you know the same money is not given by another ministry for the same project? This is what I have found is happening. In fact, right now we have here in Cornwall an administrator of a hospital asking for money for seniors' programs, which tells you how far the seniors' money has been used. Seniors and disabled, because they do not have their own ministry, are being taken advantage of when money is requested and there is an overlapping in every ministry.

We do not have a centre like you have in Brampton or anything, only a small church that is closed most of the time. There are only one or two and they do not work. Mr Cleary is very aware of that.

Mrs MacKinnon: You are aware that there is a ministry that the seniors do come under?

Mrs Jensen: There is an office; there is no ministry. I think that is where the fault lies. I think we should have our own ministry and all moneys that are requested should be going through that ministry and then you would not have all this overlapping.

Mr Villeneuve: Thank you very much, Mrs Jensen, for an excellent presentation. The statistics were most interesting. We know this part of Ontario. The riding I represent, which surrounds this city, has a higher percentage of seniors than just about anywhere in the province and it makes it all the more difficult to deliver Meals on Wheels and homemaker care when you have many miles to go between calls.

Mrs Jensen: I realize that.

Mr Villeneuve: I am not sure what homemakers are being paid right now. Could you tell us what, to your knowledge—and quite obviously you are very knowledgeable—they are being paid now and what do you feel they possibly should be getting as opposed to what they are getting?

Mrs Jensen: I think most of the homemakers are getting very low wages, \$5 to \$6 an hour, and that is not a job most people would look at as a job for the future. Most

people who go as homemakers have to have a certain amount of qualifications somehow—

Mr Villeneuve: Compassion.

Mrs Jensen: —and compassion and love of your fellow man. I think maybe we should be looking at \$8 to \$9 an hour as a half decent wage so that people would stay in the job where there is not that much continual change; there is more permanency in it.

The Chair: You did really well. You used up your whole 15 minutes up. Thanks for appearing before this committee.

Mrs Jensen: I was hoping to get a question from Mr Cleary.

Mr Sterling: We ran out of time.

Mr Villeneuve: Sorry I took so much time.

RICHARD HICKERSON

The Chair: The next presenter is Mr Hickerson. I would like to welcome you to the committee. You have up to 15 minutes for your presentation and, if you can, leave some time at the end for a question-and-answer period.

Mr Hickerson: Ladies and gentlemen, I would like to thank you all. I really appreciate this opportunity to speak to you today. It is strictly on my own behalf, John Q. Citizen, ordinary guy on the street, whatever, but in my view there is a real need to counterbalance the one-sided criticism I have been hearing and you have been hearing of the recent Ontario government budget. There is a need to counterbalance a lot of this criticism with what I call common sense and some realism. I hope I will have time to get through my presentation.

The Chair: You can use all your 15 minutes on your presentation.

Mr Hickerson: If I do not, I will skip through paragraph to paragraph and quickly. I have a tendency to be a bit long-winded by nature anyway, but I will skip to the end if I have to.

The Chair: If you do not get through it all, the clerk here will have a copy and she will be reading it over for part of the report.

Mr Hickerson: Very good. I am glad about that because I may not get through. This is the kind of thing that gets me going as an ordinary citizen. I am trying to understand what is going on in the world and in my own province. I am trying to understand the tremendous changes going on in the Soviet Union, and this is what I see in the paper. I will just read you a couple of headlines to show you how much confusion there seems to be about what is actually going on and how difficult it is for the ordinary citizen to understand.

This is the Standard-Freeholder, our local newspaper, the issue of Monday, August 26: "New Democratic Era Begins in USSR," rather an interesting headline I would suggest. Take a second look at that one. Here is one that will really turn you upside down if you are an ordinary citizen trying to understand what is going on in the world. I turn to the editorial page and I see under the little heading "World Today" by Mr Derek Nelson a title, "Retreat from

Socialism Isn't Easy." That throws a real curve at me as a reader and as a person trying to understand and I say, whoa, what is going on here?

So I get my books out. I read the main articles in the Encyclopaedia Britannica on capitalism, on socialism and on Marxism. I spend two weeks plowing through this material to try to get a grip on what is actually happening in my world. My comments are in the light of my two weeks of study—very interesting stuff. Of course we are going through a very interesting time and it impacts on Ontario as it impacts on every other part of the world, and we had better be awake to know what is going on.

Socialism is frequently spoken of today as if it were incompatible with democracy. The corresponding fallacy is to identify capitalism with democracy, so you have a double whammy, double heresies going on here. Both these errors can be cleared up with a proper understanding of what democracy is and what socialism is. Socialism refers simply to a society in which the economic means of production are not controlled by private individuals. Democracy refers to a type of political organization in which representatives are elected by the people and in which majority rule generally prevails. It is quite possible, therefore, for a society to be both socialistic and democratic—a great revelation there.

In states which are totalitarian, the state is glorified and considered as more important than the individual. In democracies, however, the individual is seen as more important than the state. The danger in democracies is that the majority can, if unchecked, exercise a form of tyranny over the minority which is just as evil as any kind of despotism. Equally dangerous is the kind of tyranny that can be exercised over the many by a powerful few who have most of the real power very simply because they own the means of production.

1540

The most terrible effect of capitalism has been to de-personalize and dehumanize relationships between people, making them more like machines, units of production, and people become an impersonal kind of labour force. What a way to dehumanize people. Now we are not even people any more; we are a force. This annoys me to no end, the terminology, but it is classic. This is what is happening to us. We have to be aware. Instead of human values and human needs we have machine needs and technological needs which seem to come to the fore. That seems to be the driving force, not human needs but technological needs, profit needs, competitive needs etc.

No political system is, of course, above criticism. I do not care how good it is. We have not found a perfect one yet, obviously. Capitalism itself is certainly not perfect, although I do not think it gets enough close scrutiny and attention and it does not get questioned or challenged often enough. It is taken as the status quo and it is taken as unchanging and unchangeable and there is nothing any of us can do to improve it. It has already reached the state of perfection.

If the fans of the capitalistic approach give themselves permission to criticize other systems, then they must be a little more willing, perhaps, to accept the legitimate criticism of those who can still see the real weaknesses of capitalism.

Although not necessarily wrong in themselves, some of the values in capitalism are pretty thin. They do not reach to the highest parts of human beings. They do not inspire us to our highest levels of ability and growth. They are too thin for us. We are not completely satisfied with that. We are restless and looking for something better because we see these disadvantages every day. I will move on to the next paragraph and I will let you just read for yourselves.

Ethics and economics have not mixed too well in the historic evolution of our capitalistic system. Despite this, the value and dignity of the human person still lies at the heart of any economy based on justice. People are subjects, not objects. It is about time they started being treated as subjects and not as objects, as they sometimes are. They must take priority over both capital and technology in any kind of just economic order. People are meant to be agents of their own destiny, not simply pawns. The common good of all must take precedence over vested self-interest. This is why economic strategies aimed at maximizing profit, power and domination are distorted models for true growth and development. They put profit and things before people and are therefore immoral. Might never did make right and you have to be a moral idiot to say that it did.

The old Darwin thing of survival of the fittest, what kind of world is that and who wants to live in that kind of world where everything is based on survival of the fittest? What does that do to the poor and the disadvantaged and minority groups and what does that say for our whole approach to human beings? Good heavens, surely we can do better than that.

Here is an interesting one, right out of the *Britannica*, ironically, in the article on capitalism. This particular paragraph threw me. "It is the society which invests more in its people that will advance more rapidly and truly inherit the future. Many economists maintain that in the long run larger resource allocation to the public sector, especially to education, basic research and investment in people generally, heightens the prospects for sustaining high rates of economic growth. A society which can casually disregard the fact that over 10% of its workers are relegated to the trash heap of unemployment and which can, with a straight face, call 6% or 7% unemployment 'full employment'"—I love the terms that these economists use.

I wish I could find an economist who only had one hand because then he would never be able to say, "But on the other hand." If we could only find a one-handed one, it would be so great. I am no economist but I love reading what these fellows write. Some of it is incredible. It really boggles your mind. I suppose they are wiser than I am in their special field. But there are economists who see beyond the way things are now and who are looking for that, who say, "How can we, as a social, caring, humane society, call 7% unemployment full employment?" That is a real trip, that one is.

I am not against true progress. I am not against profit. When I start talking like this, everybody says: "What's the matter, Dick? Are you against profit?" I am not against profit. I am against exorbitant, extravagant, outlandish profit, where profits are never controlled but wages are always controlled. We have to control things like rent—I

heard the lady—rent and everything. We never put controls on profit, though. It is okay for people to gouge each other and to exploit each other right to the hilt—no limit on profit. There is something wrong with that philosophy, in my books anyway.

I do not define progress solely in terms of profit. True progress must improve the lives of ordinary people, not simply add to the wealth of the wealthy. That is not progress. The basic human needs of the many must take precedence over the wants of the few. I will pass over the rest of that next little paragraph to save a little time at the end maybe, and I will just read you the last paragraph.

The Chair: You have two minutes left.

Mr Hickerson: I will just do my last paragraph.

The Chair: Summarize.

Mr Hickerson: No, that is fine. This is why a social democratic government—and let's face it, this is a first. We have not had a social democratic government in Ontario ever before. They seem to be starting to pop up here and there in Canada, now and again. We are starting to realize that maybe there is a better way. Maybe there is another way of handling things. This is why you find the NDP in Ontario more likely to use deficit spending in a time of crisis. We were—and I do not know if we still are but we were—in a time of crisis, the deepest depression since the 1930s. This was no fun. So what did they do? Deficit spending. This is a traditional strategy and approach by—I do not care if it is Canada or anywhere in the world. Any social democratic, responsible government in a time of crisis is going to stand up and do this kind of thing because it puts people before profits.

I know it is hard to understand. I know we are not used to it yet because we have not seen it all that often. What is truly refreshing about the recent Ontario budget is that people, accustomed to being low on the list of priorities and to being treated like objects and commodities, units of production under capitalistic schemes, pawns to be exploited and manipulated by an impersonal, uncaring system often based largely on greed—finally a breath of fresh air. After all this time of living under that other cloud, all of a sudden, we get a government that says: "Whoa, we are going to give people the priority. We are going to put them first. We are going to let them come forward, right to the head of the class." With this government that is what it promised us, and that is only what it is delivering, putting people first.

This is why I would like to take this opportunity to thank the government of the day for coming through with its promises and putting people where they really belong, and that is at the head of the class. When you put people first you feel good. Do you know why? Because it is right to put people first. That is where people belong.

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The Chair: Thank you for appearing before the committee. Sorry you ran out of time.

Mr Hickerson: That is okay, it is just my long-windedness. Thank you very much.

DOWNTOWN BUSINESS IMPROVEMENT AREA
CANADIAN SHOE RETAIL ASSOCIATION
OF CANADA

The Chair: Would the Downtown Business Improvement Area please come forward? Mr George Assaly, welcome to this committee. You will have 15 minutes for your presentation.

Mr Assaly: That is fine. I may not need it. I not only represent the Downtown Business Improvement Area, I am also representing the Canadian Shoe Retail Association of Canada, which represents 6,000 shoe retailers across the country, the majority of which are in Ontario. I am the chairman of their committee on cross-border shopping, and that is basically why I am here to speak to you.

I am going to be open about it: I am sure many of my confrères on the committee and in our industry and retailers have said: "Look, George, you are wasting your time. This is just an exercise in futility; they will not listen to what we have to say." But I am the old-fashioned type and I still believe that if we have something concrete to present to you, it may influence you the next time you are getting together to discuss a new budget. I still believe that the politicians of our province, and of our country, have the best interest of all of us at heart.

I am here to speak to you, basically, on cross-border shopping. It has been, as many of you know, a real disaster for the province. I am not talking about just the border communities. I was at a meeting yesterday in Toronto—I just got back about 3 o'clock this afternoon or shortly before that—speaking to people who are retailers in Sault Ste Marie and Sarnia, Thunder Bay and particularly the area that some of you are from, the Hamilton triangle, where it has almost reached a crisis. It is no longer just a border problem. This insidious thing that is happening has stretched throughout the province.

I can tell you that this afternoon there are special buses leaving Owen Sound to drive to Buffalo for people to shop. There are special buses running from Sudbury three times a week for people to shop in Buffalo. I do not think the government has yet appreciated exactly what is happening. Your minister has said that it is a very complex problem and it cannot be solved with just a Band-Aid solution. I agree it is a very complex problem and it is going to take more than just overnight to solve our problems of the high dollar and distribution systems and all these types of things, but the problem has been studied to death.

There are reports by Ernst and Young, by Coopers and Lybrand, by everybody. We have done one here in Cornwall just recently where 400 constituents have been surveyed. We have all the details. We know who is shopping, what they are shopping for, why they are shopping. It is not necessary for us to study it any more. It is time that some action take place and we mean getting some real help from the government.

The Ministry of Industry, Trade and Technology has set up a task force on cross-border shopping. I have been sitting on that committee for MITT for 18 months now. Under the previous government they were very generous. They gave us \$50,000 from Mr Kwinter's department,

which was really not a great deal of money, but at least it was \$50,000 to help three communities in the province. It was just a very small amount, but at least we thought it would help.

In the next budget under the new government, we asked for \$200,000. They said it was too much, so instead of cutting us back to the \$50,000, the last budget gave us exactly nothing—a big zero from the new government, down from the \$50,000 we had from the previous government, and yet a committee like that is asked to do something to help stop a \$3-billion haemorrhage in our province.

So far we know of 14,000 jobs that have been lost in Ontario—your government figures, not my figures. That is what your people are telling us, 14,000 jobs lost in Ontario from cross-border shopping. If there were 14,000 jobs lost in the steel industry or in the automobile industry, or the industries that some of you represent in your communities, there would be panic in the streets. But we are retailers and it does not seem to matter. Those 14,000 jobs are families. Those are taxpayers. The communities are suffering.

Our figures show that in Ontario alone in 1991 the loss in tax revenues—and these are government figures—federally, provincially and municipally, will be approximately \$500 million. If you lose \$500 million, how are you going to keep up the services we feel we are entitled to in the present situation? The best health system, the best education system, everything that we have got is the best in the world. How are we going to keep it up if we start losing something like half a billion dollars in one year?

I do not have to tell you the figures. This year, 1991, will show that there will be 100 million one-day crossings to the United States, 60 million by car and another 40 million by post office. Every time somebody is allowed a \$40 parcel to come across from those catalogues, that is like somebody shopping for one day, and believe me, they are more than the \$40.

Something has got to be done. Your minister says: "It's too complicated. We have to study it again." We say there is a solution. It may be a Band-Aid, but when you cut your finger, you put a Band-Aid on it until you get to the hospital to get it stitched up. You apply something right away. We damned well have to have something applied now or we are going to haemorrhage to death from that cut.

There is only one solution to do right away, and I know you are going to say that because of the bureaucratic problems that arise from it, it cannot be done for another six months or eight months, or until there is another budget, but my God, you have got to think about it for the next budget.

You raised the gasoline tax a cent and a half a litre in the last budget, to bring in \$221 million, I understand. Is that correct, Mr Chairman, \$221 million, and another \$221 million in January? Our people tell us, through your department, that you not only are not going to get the \$221 million but the gasoline revenues in tax dollars are going to be below that, because there is such a leakage.

Olco, one of our budding oil companies in the country, tells us that across Ontario its retail sales are down by 50%. In Sarnia they are down 83%. The only way you are going to get those dollars back—it is a simple matter of trying to figure out that if you sell more, you are going to

get in more dollars. We are saying that the gasoline tax has to be reduced. Forget everything else at the present time. You have to reduce that gasoline tax so that the cost of a litre of gasoline in Ontario is only six to eight per litre cents more than it is across the border. It not only will stop the trigger—and that is the trigger that sends everybody across the border, believe me. You know it and I know it. I do not have to tell you the gasoline is the trigger. Mr Cleary tried with a private bill to get the gasoline tax reduced along the borders. It is now not just along the borders, it is throughout the province.

We are saying if you reduce the gasoline tax to where we can compete in tax dollars, the increase in sales in gasoline is going to be so phenomenal that you are going to make up for the reduction. You will make up the \$221 million extra you wanted, plus the trigger that sends people over there to shop when they are getting gasoline. You are now going to get your Ontario sales tax for those billions of dollars that are being sold over there, all those billions of dollars that are going to the States now. You are going to get that 8%, so try and figure it that way. You are not only going to lose a gasoline tax by not lowering the gas, you are also losing that 8% on all those items being bought in the States. You are also losing in the municipalities, the businesses going bankrupt, the people going on welfare who are in the retail business, not maybe the owners but certainly the employees.

1600

The Chair: Sir, you have four minutes left. Do you want to have a question from each one of the parties—

Mr Assaly: I will stop. There is my point, you have got to lower the gasoline tax.

Mr Sterling: I think we have normally allowed groups half an hour and as Mr Assaly represents a group I think we should give him the courtesy of that amount of time.

The Chair: I am just following directions of the sub-committee.

Mr Sterling: I do not want to cut him off, it is the end of the day as well.

Mr Kwinter: Mr Assaly, I was taken by your comment about the 14,000 retail jobs. There seems to be a perception by the government that retail jobs do not really count.

Mr B. Ward: Is that true? It is not true though.

Mr Kwinter: I am just saying that is what he was saying, that if they were 14,000 jobs in the steel industry or the automotive industry there would be panic in the streets; but they are 14,000 retail jobs so there is not the same kind of situation. That attitude permeates the whole issue of Sunday shopping.

We have a situation in Ontario where people do shift work. In factories they work seven days a week, no one comments about that. People who work in restaurants, in the hospitality and service industry, work seven days a week, nobody comments on it. For some reason or other they have singled out retailers as the ones who have to be protected because they are being exploited and they are asked to work, whereas 40% of the workforce in Ontario

works Sundays. Why do you feel this is happening? Why do you feel there is such an insensitivity to the retail business?

Mr Assaly: Because, except for organizations such as ours—and we are probably one of the stronger ones because we have that many members—there are too many of us who are just independent. They are individuals. There is no union. I would give my right arm—but frankly I would probably get shot when they hear this around the country—for them to unionize our employees, then they could stand up to the government for some things or other. John is laughing at me—

Mr Cleary: Oh, no.

Mr Assaly: Really, we are individuals, we are all independent. That is why we had to have things like business improvement areas to try and get us to work together. We are all individuals. By the way, getting back to the Sunday shopping, our survey has shown that the Sunday shopping issue is not that big a trigger in sending people across to the States.

Mr Sterling: Our party and our dissenting report on the cross-border shopping issue, which this committee considered prior to this matter, recommended that the provincial sales tax and the GST be melded into one tax so it could be collected at the border and that the increased revenues the government would get from that would allow a decrease in tax of about 5 cents a litre. Those are basically the two recommendations we made. I was interested in your survey and in knowing who are the greatest cross-border shoppers in this area by profession?

Mr Assaly: We find, and this is shocking to us, that the majority of cross-border shoppers are not the people who are at the bottom level of the economic ladder. They are the ones who are educated and are a little higher. I have just had a meeting by telephone with one of the people who spoke here earlier. We are finding that probably the most prolific group of cross-border shoppers in Ontario are schoolteachers.

Mr Jamison: Thank you for coming today and making your presentation. It certainly addresses a problem of grave concern to all of us here regardless of party. It is an issue that I know the ministry I am attached to, the Ministry of Industry, Trade and Technology, is concerned about. When the minister spoke about the problems in and around cross-border shopping—some issues are greater than others, but in the in-depth look this committee took at the cross-border shopping situation, time and time again we were reminded that the atmosphere was created over the last few years to really place in people's minds the assets to going across the border. I know you have zeroed in on gasoline which is an important issue.

Manufacturers that wish to export are talking about the Canadian dollar. It is a relevant factor in cross-border shopping also, but beyond that, what we heard from a number of presenters to this committee was in fact that the free trade agenda placed in people's mind an ability to go freely across the border. Beyond that, when the GST was put in place, there seemed to be an almost immediate increase in the magnitude of cross-border shopping. I do not say that all the problems rest with the federal government.

The Chair: Can you get to the question?

Mr Jamison: I certainly do not intend that to be the case, but what I am saying is basically that gasoline may be an issue that is probably more identifiable than most, but the issues are broad ranging when dealing with cross-border shopping. Do you feel that way?

Mr Assaly: The free trade thing came along which gave everybody the idea that this federal government had said: "We're going to open the borders. Everybody can go and shop. We're going to lower the tariffs." That was not the intent. It was meant for commercial business but they have not kept it like that, because the federal government seems to consider cross-border shopping strictly a traffic problem. That is all they are concerned with, getting people over the border faster. It is a traffic problem with Mr Jelinek's department; it has nothing to do with taxes or collecting duties or anything else, it is a traffic problem. We cannot get anywhere with them so we are coming to you and saying that the gasoline is where you can attack it right now.

We know there has been a social commitment made that we want to tax people for alcohol and cigarettes; that has been a social choice. We made that choice for reasons of health and everything else. Fine, we accept that. But the retailers in this province, whether in shoes, clothing or in any field, can compete, in spite of what the *Globe and Mail* and some of them have said in their columns. I attacked one of their columnists last night, I had a tough time not to attack him physically because they write about our service.

We can compete with the Americans on service. We can compete on quality. We can compete on everything. We are interested in the people buying here—not, Mr Sterling, collecting the duties at the border because they have shopped there. We want a reason for them to stay here and the reason for them to stay here is not to tax the hell out of them with the gasoline. We do not want them to go over there and shop at all. They have a choice. But if the choice is on service and on quality and all those other things like price—we can compete on price, believe me, and we are doing it now if you will see the ads that Bata and Radio

Shack and I run myself on Samsonite luggage and everything—we can compete.

1610

But you have to do something to keep those people in Canada and the only way you are going to keep them here is by lowering the gasoline tax. The bridge right out here at 6:30 in the morning is lined up with everybody who has a pickup truck, tandem truck, car or anything on the way to the States. And if you talk to the Petro Canada dealer on the corner there, he has this big place, he tells me in the morning they are lined up at his pumps to take fifty cents or \$1 worth of gas to get across to fill up in the States and get back. He cannot operate like that.

You people, the government, have to do something about gasoline taxes. We cannot wait for all the very complicated problems about our distribution system and all these other things as to whether we are going to have a new way of distributing merchandise and new wholesale and manufacturing systems. We cannot wait and you cannot wait, because you are not going to have any dollars to keep up all the policies you want and all the social benefits we deserve. You are not going to have the dollars to do it if you do not keep those people buying here.

You are the only ones who can do it and I am here talking in spite of the fact that my confrères said, "You're wasting your breath, George," and I said, "No, these are our leaders, they're the people we've elected, they're supposed to be smarter than me and smarter than you, so they should damn well know what has to be done." You are the government. The opposition better get on their high horse too and raise a little hell about it because between all of you, you have to do something because it is now a crisis situation for the whole province, not just the border towns.

The Chair: I would like to thank you for your presentation. Maybe if you stayed around a few minutes some of the members would like to talk to you.

Mr Assaly: I would be glad to talk to any of them.

Mr Villeneuve: Have you your union rep with you?

Mr Assaly: You know better than that.

The committee adjourned at 1612.

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1991-92 budget

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Journal des débats (Hansard)

Le mercredi 28 août 1991

Comité permanent des affaires
économiques et financières

Budget de 1991 à 1992



Chair: Jim Wiseman
Clerk: Todd Decker

Président : Jim Wiseman
Greffier : Todd Decker



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Avec le nouveau système, la numérotation commencée en janvier 1991 s'arrêtera à la dernière séance de la Chambre et des comités de l'actuelle première session. Une nouvelle série commencera le jour de l'ouverture de la deuxième session et des sessions suivantes : numéro 1, page 1. Les rapports des comités seront également numérotés à partir de la première séance de chaque comité pour une session parlementaire donnée.

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LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Wednesday 28 August 1991

The committee met at 0919 in the Delta Hotel, Ottawa.

1991-92 BUDGET

Resuming consideration of the 1991-92 provincial budget.

STEVEN LANGDON

The Chair: We have had one problem here. We said we would start at 9:30 this morning with the cancellation of Mr Langdon, MP. It seems to be there was a mistake in the clerk's office. Information was given to us that he had cancelled when in fact he did appear here at 9:00 this morning so we are going to be running maybe a little bit behind schedule throughout the morning.

I would like to welcome Mr Langdon to the committee.

Mr Langdon: It feels a little strange to be on this side of a presentation table. It is certainly more normal for me to be sitting on that side and to be dreaming up the questions which I am sure you are going to want to throw at me. But it is certainly a pleasure to make this presentation to you this morning. It is a presentation which I make as the federal New Democrat finance critic for fiscal and monetary policy but also a presentation which I make as an economist by profession, having previously been associate director for economics with the International Development Research Centre and an associate professor of economics at Carleton University here in Ottawa.

The economic situation in Canada and certainly in Ontario has been grim since 1990. Virtually a full year of economic decline has been experienced up to April 1991. This recession and its length were not predicted by the federal government and there is wide agreement among economists that this is the first case in which Canada led the United States into recession. In the words of the famous conference board judgement, this has been a "made-in-Canada" recession spurred by very high interest rates, an overvalued exchange rate and federal tax increases, especially the GST, at the worst possible time.

There are now some signs that the decline has hit bottom and a limited recovery is taking place at the national level. Thus manufacturing shipments have grown for the last four months available—those are the figures for March to June—and overall gross domestic product levels have increased for the past two months available, that is, April and May. Unemployment, however, continues to run at 10.5% nationally without signs of any decrease and bankruptcies for the last month, July, have actually increased. These indicators suggest that US economic conditions plus increased UI payments in Canada continue to hold back any broadly based and rapid recovery in this economy.

There are a number of reasons why there is a logic to budget deficits in the face of that kind of poor economic

performance. Such marked and ongoing economic decline indicates that overall demand for goods and services in the economy is too low to maintain reasonable levels of unemployment. The government has to fill that gap in overall demand in order to revive the economy. In a technical sense what is happening is that intended savings on the part of consumers are greater than intended investments on the part of business.

In that sort of circumstance what happens is the economy, through its indirections, brings actual savings into equality with actual investment through a reduction in overall economic activity. That reduction in overall economic activity makes the intended savings of consumers less than they would otherwise be, and thereby makes their actual savings equal to the actual investment which business is undertaking.

What a budget deficit does in these circumstances is, in effect, provide investment which would not otherwise take place, thereby providing an outlet into which those intended consumer savings can go and stopping the decrease in overall economic activity from being as great as it otherwise would be.

There is a lot of debate in economics about when deficits are justified, but there is no serious debate among economists about a view that would say deficits are justified when surpluses have been run previously and a marked economic decline and growing unemployment are occurring. That is the situation in Ontario coming into 1991.

The recession of 1981-82, and the recovery from that recession, point out dangers of certain sorts of deficit financing. Both the federal Liberal government and the federal Conservative government concentrated, in their recovery strategies, on major tax breaks for corporations and for upper-income earners in the economy. Thus, there were the Liberal moves to accelerate corporate depreciation allowances and to offer widespread new corporate grants, and there were the Conservative tax cuts for energy corporations which were part of ending the national energy policy, as well as the tax exemptions for the first \$100,000 of capital gains. Both federal governments, both Liberal and Conservative federal governments, also markedly decreased income tax rates for upper-income earners.

These are the revenue losses which, in a recent feature article for Statistics Canada, in their *Economic Observer*, Mimoto and Cross point to in explaining the growth of the federal debt. Thus you have a situation which, as of the present time at the national level, has 47.4% of federal tax revenue coming from personal income tax, compared to just 39.3% in the 1976-81 period. Corporate tax now accounts for just 9.8% of revenues compared to 15.3% in that earlier period.

This form of what we could call trickle-down deficits does not seem to spur rapid and broad-based enough recovery to regain full employment levels and, thereby, to

eliminate the deficit. Moreover, this recovery strategy increases inequality considerably, and economists have got technical ways to measure these levels of inequality which they call "Gini coefficients." The higher a Gini coefficient is, the greater the inequality. The lower a Gini coefficient is, the greater the equality.

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So if you look at this period from 1981 up to the later part of the 1980s, you see that Canadian income distribution, as measured in Gini coefficients, went from 0.437 in 1981 to 0.455 in 1982 and then 0.472 in 1983. Those are big figures actually, and big changes in terms of this particular measure. By 1988 this Gini coefficient was still at 0.470. So you had seen quite a dramatic increase in inequality as a result of the recession itself and as a result of the recession recovery strategies after 1981-82. All of which argues, I would say, that the approach to a deficit in this budget, which really sees new income generation being provided for those at the bottom of the income scale, makes much more sense.

It is also important, I think, to recognize that Ontario has faced especially difficult circumstances in recent years. As predicted by the federal authorities during their analysis of the likely effects of the free trade agreement, southern Ontario was by far the hardest-hit region as the trade deal came into effect.

Throughout these past seven months I have chaired a federal New Democratic economic recovery tour that has, like yourselves, visited many of the communities of southern Ontario. The story we have heard everywhere is a pretty sorry tale of production shifts to the United States, bankruptcies based on US or Mexican competition and shutdowns of US branch plants. The FTA, I think it is fair to say, has devastated much of Ontario at the same time as federal government changes to the unemployment insurance system restricted dramatically the help that workers could expect in adjusting to new employment patterns.

We heard, as I am sure you have heard, that welfare rolls have increased in various communities by from 50% to 80%, and many community representatives indicated to us that 70% of the recipients of this welfare were having to apply for welfare assistance for the first time. On top of this human pain, the federal government has added cutbacks in the commitments made to share Canada's assistance program expenses. It has reneged on its promises to transfer financial resources to this province for education and health. The new provincial government could have cut back accordingly, but this would have sharply contradicted its electoral mandate and would have inflicted yet more human suffering in a situation already very grim for many citizens in Ontario. The Treasurer noted in his budget speech that these unilateral moves by the federal government cost Ontario \$3.6 billion in 1991-92 alone.

The strategy being followed by Ontario, of course, is possible only when fiscal flexibility has been maintained, and that is not the case at the federal level. Budgeting by Liberal and Conservative governments has left a massive national debt so that 34 cents out of every revenue dollar has to go toward interest payments. That makes it very

difficult to take new spending initiatives without reducing other expenditures or raising taxes.

In Ontario, only 12 cents of each revenue dollar is going to interest charges, even after this increase in the deficit. So flexibility clearly remains. Federally, it would not be possible for a New Democratic government to follow the course which Ontario has followed after the next election.

Tax reform would be necessary to re-establish a fairer system of revenues and the fight for full employment would have to rely on monetary policy, lower interest rates, foreign exchange policy, a more competitive value for the dollar and the establishment of new institutions such as regional development banks to assist community level initiatives in poorer parts of Canada. Such monetary and exchange-rate instruments, which are available at the federal level, are not available to you at the provincial level.

The final point I guess I would make is that the strategy of Ontario's new government is just beginning to take effect. But there are already signs that the expansionist budget policy is working. Ontario is moving into a faster recovery than other parts of the country, and there are signs that the damage of the recession on people is beginning to be overcome. I do not want to pretend that there is not a long way to go, but the following signs are all positive for the Ontario budget.

First, the most recent unemployment statistics for July show the jobless rate declining in Ontario while the level stayed the same for the country as a whole. Before the budget, unemployment was growing faster in Ontario than it was nationally.

Second, in the last three months available, that is April through June, manufacturing shipments expanded in Ontario by 3.75% compared to a rate of 3.21% for the country as a whole. If we look at the period from June 1990 to April 1991, the decline in manufacturing shipments had been greater in Ontario than in the country as a whole.

Third, bankruptcies in the most recent month of July have risen more slowly in Ontario, 3.4%, than in the country as a whole where the increase was 6.7%. Again, this is in contrast to the period before the budget when Ontario bankruptcies were growing faster than the national figures.

Overall then, I hope this committee will be able to endorse unanimously the basic strategy of this budget, even if there are disagreements over details. This is the right budget at the right time and both consumers and business investors will see this to be the case, I am certain, over the year ahead.

Mr Kwinter: In this morning's Globe and Mail, in the business section it says that 37% of the largest companies in Ontario are not planning any capital investment over the next five years. This was research conducted by the University of Western Ontario's National Centre for Management Research and Development. The top five reasons reported for not planning to invest in Ontario were, in descending order of importance, Ontario's wage protection policies, the provincial government deficit, levels of Canadian and Ontario productivity, Ontario's planned employment equity legislation, and corporate income tax.

We have a situation where 37% of the largest companies in Ontario say they will not invest in Ontario in the next five

years. Interestingly enough, 39.7% reported they will invest in other places in Canada. To my mind, that has to be a direct result of the budget.

One of the interesting things about it is that Dr Bergman, who is the director of this research facility at Western Ontario, said he thought it was pretty good news because he fully expected that 85% of the companies would report it, given his feedback of what is going on in the province.

Do you have any comments on that?

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Mr Langdon: I have two comments. The first is that if I read your statistics correctly, that tells me 63% of the largest companies in Ontario are planning to invest over the next five years. I would be very interested in what the figures are for Canada as a whole. We have seen a marked decrease in investment in this country, an even more marked decrease in investment intentions which large firms have reported to Statistics Canada at the national level. I frankly think that if 63% of large firms are planning new investments in Ontario over the next five years, that is a vote of confidence in the budget.

Mr Kwinter: I think it is kind of interesting that 37% is exactly the percentage that the New Democratic Party got to form the government, which means that 63% of the people in Ontario do not approve of that government. So how do you equate that? If 37% was enough to form the government and 63% was not, can you say that 63% of the people are opposed to the NDP?

Mr Langdon: I guess Mr Kwinter, I would put to you the question whether in 1985 the Liberal government, which took office at that stage—

Mr Villeneuve: Thanks to whom?

Mr Langdon: —had 37% of the vote, had a majority in the Legislature and had a lead over the previous government of, what I believe was the case in Ontario, five to six percentage points.

Mr Kwinter: I do not understand your comparison, sir.

The Chair: I have to go on to Mr Villeneuve.

Mr Villeneuve: Thank you, Mr Langdon, for taking time from the major leagues of politics to speak to us in the minor league. I appreciate that.

Mr Langdon: Well, it never works that way.

Mr Villeneuve: I find it a bit of an Alice-in-Wonderland scenario when you say that on budget day, when Mr Laughren presented his budget, things turned around in Ontario. I have a little problem with that. You state that economic activity turned around in May and June. I say to you that might have been better had we not had the particular budget that we had at the end of April.

Leaving that aside, you state that 12% of our gross provincial revenue, after the additional deficit, will be the figure utilized to service the debt and indeed at the federal level it is 35% or almost 35%. I suggest to you that by the end of 1994, when the total debt has gone up by almost 100%, that 12% figure that you quote may well be double or close to double.

Do you think that would lead intended savings by individuals and intended investments by corporations to actually promote this, with the type of economic climate?

Mr Langdon: Two responses: First, with respect to the impact of the budget, of course I do not want to sit here and claim that everything started to get rosy in Ontario after the April budget. But I think, in assessing the budget, we have to look at the hard numbers that are available. All of us are politicians here. We are going to inevitably have our view of the budget. But at least we can put some confidence in the numbers which are provided by Statistics Canada, in the case of bankruptcies by the Department of Consumer and Corporate Affairs, as being neutral numbers. They are not something which is provided to help our argument, so I think we should look at those hard numbers. Certainly if I look at them and I see that since the budget things are going better in Ontario than they are in the rest of the country, that seems to me to be evidence that supports the budget approach.

With respect to your other point, I take it very seriously. I think it is very important that we do not get ourselves into the hole which Conservative and Liberal budgeting has created at the federal level, but to do that it is crucial that we see to it that this economy in Ontario starts to move ahead with some strength, with some real speed and with some fairness as part of it. Certainly, as I see it, the signs are there of that beginning to happen. If a year from now the signs are different and the numbers are different, I am quite prepared to admit that is the case, but I do not expect it to be.

Mr Jamison: Thank you for taking the time this morning, Mr Langdon, to come and appear before the committee. We appreciate your input.

The Globe and Mail article was referenced today. I think we should just follow through on that a little bit because certainly we tend to give only the information that is relevant at times to our own political position. That article goes on to list the most significant factors in companies' decisions to invest outside of Ontario, in descending order of importance, and the first two of course were the value of the Canadian dollar and interest rates or the cost of capital.

Having said that, there are two views on the budget situation, two very separate views. One is of course the Conservative philosophy on budgeting and the other is our philosophy on budgeting during hard times. We have seen the Conservative philosophy now in place for a number of years and yet the deficits at the federal level are going upwards and are projected to be \$10 billion higher this year than they were originally projected to be. That presents an obvious concern. I wonder if you could expand on the two philosophies a little more to give us an indication why the federal philosophy is not working.

Mr Langdon: I think the federal philosophy, as I have tried to suggest in my presentation, has been a philosophy that says, "Look, if we cut taxes for those at the top, large corporations, the wealthy, if we reduce income tax rates, somehow things will trickle down, benefits will reach the ordinary person and the economy will start to move ahead

again." There is in fact very little evidence that this has taken place. There has been some growth certainly in the period from 1984 to the beginning of 1990 but not enough growth to reduce unemployment rates and to increase government revenues sufficient to deal with the federal deficit. So on the level of dealing with the deficit, the strategy has certainly not worked. On the level of good economic management, what the strategy has done frankly is to bring us back into a recession, which for Ontario has been significantly worse than the recession of 1981-82. I do not see that as an approach that has any credibility in 1991.

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I think the approach which is being taken at the provincial government level cannot be the same as what you could do federally because, as I said, there are some things you do not have control over. You cannot control the value of the Canadian dollar, you cannot control interest rates, but what you can do is you can take advantage of the leverage which exists at the provincial level to see to it that hospitals continue to operate, to see to it that education continues to be supported, to see that transportation gets investment made in it. The consequence is you are spending money and getting people back to work. You are also investing in economic growth for the future. The combination of those two things, as I see it, has a much better chance of working than what has happened federally. As an economist, I have to say—

The Chair: Excuse me, Mr Langdon. I have got to cut you off. The time has expired. The committee appreciates your time spent here and the snapshot you gave on Canada and where Ontario is. Thank you.

Mr Langdon: Terrific. Thanks for the invitation.

TAYSIDE COMMUNITY RESIDENTIAL AND SUPPORT OPTIONS

The Chair: The next group to come forward is Tayside Community Residential and Support Options. The presenter is Donna Davidson, board member. I would like to welcome you to the standing committee on finance and economic affairs and the budget review. You have up to one half-hour for your presentation and question-and-answer period, if you can leave some time at the end of your presentation. You may begin.

Ms Davidson: Thank you very much, committee members, for this opportunity. I would have to say that just from what I have seen so far I am extremely impressed by the obvious breadth of input that you are getting from the province. That you would have one of our federal members of Parliament presenting and now be listening to a representative of probably one of the most grass-roots groups you will get, I commend you for really getting such a spectrum of input.

The group I represent is a very young non-profit organization based in the town of Perth. We currently operate a group home for severely physically and developmentally handicapped people. We are opening a second home. We have an 18-unit family housing project under way. We are also going to be responsible for day care in the coming year in Perth. So we have the privilege of representing some of the most vulnerable members of our community: the handicapped, the poor and children.

Because of this, we laud the provincial government in Ontario for its bold stand in not reducing payments in 1991, cuts that have been made by the federal government and other provincial governments. While we strongly support a provincial system that safeguards health and education and day care and social services, we are fully cognizant of the necessity for a sound financial base. But we do feel alarm that most of the defamation against the Ontario budget and the rallying cries surrounding the federal deficit really fail to take into account what some of us would consider the economic big picture in Canada.

The real security in the coming century for the people we represent lies in a drastic reversal of the catastrophic course imposed on us by our present federal and provincial taxation systems. However, it is not just the future of vulnerable Canadians that is at stake. Economic democracy is the underpinning of political democracy and social stability. We feel this is very seriously compromised in Canada today as the bottom 20% economically of the population has control over less than zero of the nation's wealth—their debts are greater than their assets—while over 50% of Canada's wealth is controlled by only the top 10%. The top 20% controls 69%. Such an unequal distribution of wealth is a recipe for our nation's quick trip to becoming a banana republic.

Central to the establishment of an economic democracy in Canada is a complete revision of our taxation system. It is most encouraging that the Ontario government is currently undertaking such a process. The cornerstone of any system is its value base. We propose to concentrate in our report on looking at the principles and values of a revised taxation system. We will also suggest some of the directions these revisions might take, feeling very much that it is these values and these directions that hold the future for those whom we serve through our organization.

The cornerstone is with the principles and values, very simple ones, the first being taxation according to ability to pay. The tax burden should be distributed on the basis of ability to pay. The greater the individual's wealth, the greater their share of the tax burden should be.

We should have a neutral and simple tax system based on probably one of the premises of the Carter commission, a buck is a buck is a buck. All revenue should be taxable. Much of the confusion and mistrust that Canadians experience today towards government is grounded, we feel, in the bizarre labyrinth of our taxation system. A system which ruled out the manipulation by tax lawyers and economically powerful would be more cost-effective to administer and it would do a great deal to restore public confidence.

Also, one of the principles we should be looking at is the reinforcement of the work ethic. If we want to foster a nation of contributors, then we should look at a taxation system that reflects this value, where not only income from labour is taxed but also revenue from inheritance and investment.

We would very much like financial bodies to take a look at the Carter commission report once more. This report, published in 1987, was centred very much on the values and principles we have mentioned. Unfortunately, its demise was rather strongly ensured by the opposition from Bay Street and the distortions that came out in the press and by

the fact that the author became ill very shortly after its publication and died. However, if we look at the state of the country, where it is today as opposed to where it was in 1967, perhaps the words of Carter and the words of those who supported him tend to be rather much more of a prophecy. Perhaps it is time to look at this blueprint for taxation.

We would also like to consider an annual wealth tax. If you are looking at any taxation system, a logical direction to go is where the greatest sources of wealth are. With the wealthiest 20% of our population controlling over 70% of the nation's wealth, it would seem natural to first consider this source of wealth, yet Canada's taxation of wealth is among the lowest in the western world. An annual wealth tax is currently being collected in Germany, Austria, Norway, Sweden, Belgium and Denmark. These are countries in which there is a great deal of stability. Perhaps we should be looking at the policies in place in countries like that. The recent trends in economic distribution in Canada tend to be alarming in view of the economic polarity that is being created and the instability that ensues from such an unequal distribution.

An annual wealth tax would have the following advantages: It is where the money is. The total amount of net wealth is about twice as great as the sum total of annual income. Not only is this wealth a new source of taxation revenue, but the process of public taxation helps to remove the shroud of secrecy and silence which cloaks much of the wealth in Canada. Such silence enables it to escape from being included as a rightful component of the tax base.

Unequal distribution of wealth leads to unequal access to political power, thus undermining democracy. The present system places a tax burden on labour rather than capital. It is certainly not reinforcing to the work ethic to tax labour and not tax capital. Unequal distribution of wealth leads to distortion in market and economic development and unequal opportunity in employment. Also, the small percentages removed during annual wealth taxes are relatively quite small. They do not create any discomfort in the day-to-day reality of those taxed, unlike much of the taxes in our present system, and only the very wealthy are subject to the tax.

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I think we should look at our system, which is so riddled with loopholes on how to escape paying taxes. We employ thousands of lawyers and accountants, the sole purpose of these individuals being to help those who employ them escape paying taxes, and the results are very destructive to economic democracy in Canada, as only the rich can afford to seek out the loopholes. The taxation system is shaped by the research and lobbying of this group, making an unfair system increasingly less fair. Taxation becomes a matter of game-playing rather than having a fair, sound planning basis. The public is bereft of enormous quantities of tax from individuals and sectors most able to pay, and several of the best minds and much of the national revenue are tied up in a process which is ultimately destructive for the interests of all Canadians.

I think we would look at the statistics from a source hardly known to be a radical: Peter Newman, Maclean's magazine. In 1986, 89,000 Canadian corporations, with combined profits in excess of \$22 billion, paid no taxes at all.

If corporations had matched individuals in taxation since 1950, we would now have a budget surplus of \$18.5 billion. In 1984, 287 Canadians making \$250,000 paid no income tax. These people are just the tip of the iceberg, because Revenue Canada statistics do not include the many more wealthy who have hidden their large incomes through transfer to spouses, children or private holding companies.

In Maclean's in May 1991, Newman continues: "Canadians paid \$11.1 billion more in taxes in 1990 than in 1984. Of Canadians contributing to this \$11.1 billion, 85% of those making less than \$25,000 paid less tax than in 1984. This is a fair move, but 85,000 families making over \$100,000 a year also paid less than in 1984."

Therefore, if we look at an increase of \$11.1 billion and we have a fair percentage of the bottom end being removed from the taxation and also an extremely large number at the upper end, the vast bulk of this is being paid by the average Canadian.

The federal government since 1984 has talked much about tax reform, but in actual fact, when you look at statistics like that, it shows it is a fairly smoke-and-mirrors act, because the system that is coming into place further consolidates favouritism of the rich.

Looking at the topic of fair corporation taxes, in the 1950s, Canada's tax base was 50% corporation, 50% individual. By 1987, 80% of the national revenue was obtained from individuals and only 20% came from the corporations. In the ensuing 40 years, government has directed large quantities of Canadian money to big business. Tax breaks are the most common vehicle, as they are less visible than direct grants and subsidies, but the end result is the same. Not collecting what is owed equates to giving—an example being in 1985 the \$500-million tax break to the Reichmanns to assist them in taking over Gulf Canada Ltd.—and is the same as giving \$500 million to the second-richest family in Canada. Each of us as taxpayers contributed about \$30 to the Reichmanns, yet few people get to see the connection between their tax bill and the tax breaks afforded the corporations.

Perhaps most alarming of all of Ottawa's practices is that of deferred taxes. These taxes are almost never paid off, so in essence they are free gifts to the corporations. Looking at a few of these in 1987, the deferred tax bill to MacMillan Bloedel was \$227 million, to Bell Canada \$1.2 billion and Imperial Oil \$1.3 billion. At present over \$30 billion in deferred taxes are owed to Ottawa, the same amount as the deficit.

In its 1991 report on the federal budget, the Canadian Auto Workers observed that in 1984, for every dollar of corporate tax, \$3 was collected from personal income tax. If you look at the projections for 1992-93, the amount from personal income tax will rise to \$5.60 for every one dollar collected. Increasingly, the tax burden is falling on income and not on capital. Attempts to deal with the deficit concentrate on income and consumption taxes and ignore capital, especially corporate capital. Again, if the 50-50 split of the 1950s had continued, we would now have an \$18.5-billion surplus, yet the efforts, especially of the federal government, are to guilt us into thinking that the deficit results from health, social and educational costs.

Ironically, the lack of neutrality in our tax system is not a sound economic policy, because often corporate decisions get made on the basis of tax breaks and not the financial realities without these incentives. The bottom line for most business is a skilled workforce, the stability of the country and transportation and communication. Ironically, those are the very factors that are threatened most when the revenue for their operation is in jeopardy.

Examining briefly the consumption tax approach which seems to be growing in this country, Canadians now pay 50 cents in sales tax for every \$1 they pay in income tax and we pay \$5 in income tax for every dollar that is paid by corporate taxes. Consumption taxes hit those who must consume almost everything they earn or receive. They are a means of disproportionately collecting revenue from lower- and middle-income persons while having minimal impact on the finances of the rich.

Consumption taxes are costly and frustrating to administer. They handicap our ability to compete internationally. Just think how quickly our cross-border shopping problem would disappear with the removal of sales taxes and the GST. Imagine the boost to consumer spending in our country. A no-loopholes, equitable income capital tax system at both the corporate and individual level would more than replace the revenue from sales taxes and GST, be infinitely fairer and simpler to administer.

While we are looking at this problem, I think we might examine the fact that since 1970, estate taxes have been abolished in Canada. This move only further consolidates the nation's wealth into the hands of a few.

Looking at getting our workforce back into full production, an adequate tax base would give us the funds for the child care and the education substructures necessary to support almost full employment. It is not an impossible goal. Sweden has a 2% unemployment rate. It does, however, require planning and the political will to fund retraining and employment subsidization and have these replace the concept that we now exist with whereby we accept that a high percentage of our population will be on UIC or welfare or other forms of social assistance. It is much more economically sound, not to mention the personal and community stability.

Looking just briefly at housing and the first points, it is very encouraging to see that these are all principles from Ontario's present housing policy. However, to bring these into effect there are going to have to be rather large shifts in the housing policy itself and the taxation as it relates to real estate.

The 1980s have witnessed owning one's own home becoming an impossible goal for most Canadians. The incredible escalation of real estate has much of its basis in the removal of the capital gains tax and in the favoured position enjoyed by capital investment in Canada. At the same time, the federal government has reduced its commitment to housing, leaving the provincial and municipal governments to cope with the escalating numbers of homeless or persons living in inadequate, unsafe shelter.

Ironically, in the 1980s, billions of dollars have been made in real estate, a great deal of it tax-free, thanks to our largess regarding capital. In her book, *Behind Closed*

Doors, Linda McQuaig gives the example of John Turner selling his house in Toronto when he moved to Ottawa for a profit of \$635,000, this all being non-taxable, just as it is for all Canadians. Our subsidized programs for housing have post-1984 been cut back by the federal government, and yet a recipient would have to live in a housing project 118 years to recoup the \$635,000 profit made by this one transaction by one individual.

A study by David Hulchanski, of the University of British Columbia, reveals that for every \$100 Ottawa spends directly on housing, it spends \$200 and \$300 indirectly through the tax system, much of which ends up in the pockets of investors, developers and land owners.

An example of this misdirection of housing funds is the multiple-unit residential building program, the MURB program, begun in the 1970s. An analysis of where this money went to shows that most of it went to land owners and developers. By 1981, when it ended, it had lost \$670 million in government revenue, but because of the tax breaks in effect by this program until 1991, over \$4 billion will have been lost.

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The ending of tax breaks in housing, as in all other fields, would mean that funds could be directed for their real purpose and not to furthering the fortunes of the already wealthy in the guise of serving public interests.

As we look at how to perhaps start changing this system, the quote by Carter, an attorney, in his address to the US Supreme Court sort of deals in a way with the task that seems to be an ongoing one throughout humanity of one class shifting the burden to another part of the class, and it is a rather unequal struggle, because it seems to be that inevitably it is a fight in which the rich can engage quite successfully and in which the poor always go to the wall, as James Carter has mentioned there.

We only have to look at the fate of the Carter commission to realize the obstacles faced by any group in attempting to bring about an equitable tax system in Canada. However, there are factors in 1992 that make this a little more possible than perhaps in 1967.

First of all, the 25 years of the post-Carter commission highlight the growing disintegration of our social, health, safety, cultural and transportation networks. There is no single factor more responsible than the abandonment by government of public interest, largely because of its intimidation from the private sector. Canadians value medicare, the CBC, adequate pensions, VIA. A growing number of Canadians are sensing the dangers inherent in their disintegration.

A second factor which perhaps changes the equation is that increasingly it is not only the poor who are up against the wall. The shrinking middle class and the economic vulnerability of this group creates a large pool of economically disfranchised people.

A well-planned and powerful initiative to explore the inequalities of our taxation system could wake up the Canadian electorate. Most of what exists could not measure up to public perceptions of morality and justice. It is engaging to realize that because our tax laws legitimize business expense, I as a taxpayer am buying a steak dinner for a Bell Canada executive earning \$200,000 per year. In the

meantime, Canadian children are lining up at food banks. That kind of Canada is acceptable to no one who really looks at what is happening because of our inequalities.

I think it is also interesting, if we look at what has happened recently in central Europe and the Soviet Union, to realize just what can happen in a country, the massive shifts that can happen when the public will reaches a critical mass. This is largely achieved by the exposure to the truth of what is going on. In the end, it is the truth that enables the public to become mobilized to the point where it is a showdown with the forces that are trying to control them.

Last, the NDP government certainly has been receiving little support from the business community. Perhaps they are not, with the ties and the connections that the Liberal government had in ignoring the Carter commission.

I would speak now as a member of an organization that daily struggles to minimally meet the needs of our most vulnerable members of the community and very much wants a government and a bureaucracy with the political courage to restore economic justice in this country. It is very hard to hear the children, the poor, the handicapped whom we serve, the money that is going to these people, being criticized as the cost of our economic undoing, and at the same time know there is this quiet sanctioning and funding of boxes at the SkyDome and bonus holidays to Hawaii, tax breaks being the same as tax handouts.

If we look at the extent of what is happening in Europe, especially recently, and see the celebration of extending of political democracy into the lives in Europe, and especially in the Soviet Union in the last few days, we can look at what would happen in the restoration of economic democracy in Canada. Right now, as we watch the death of Soviet communism, it is well to remember that the two ends of the horseshoe are very close together. We see clearly, certainly in the Soviet Union, the pitfalls of the state controlling the economy.

But I think it is important to remember the other side of the coin. Ultimately, it is equally as dangerous to have big business controlling the state. In both extremes, the individual loses. The loss of individual power and control over their own lives is behind the dissolution and alienation rampant in the Canadian electorate today. Genuine democracy gives both political freedom and individual economic control and security, and we urge this government to move boldly in re-establishing economic democracy in Ontario. Thank you very much for this opportunity.

The Chair: Okay, we have one minute per party.

Mr Sterling: I am not going to be able to ask a question, because I was, quite frankly, disappointed in the brief in that I thought we would get a brief as per the groups that you represented and not a litany of really misleading information on our taxation system.

I just wanted to say three things in terms of the area of the brief. Number one, there is an estate tax in Canada. There is a capital gains tax on everybody who dies and leaves a piece of property to somebody and who has made a capital gain during their lifetime. They have to pay 75% of the value of that and include it in their last income tax,

which is a significant amount of money paid in tax when a person dies. So there is an estate tax.

Two, the reason corporate taxes have dropped dramatically in relation to personal income tax can be attributed to two things. Corporate profits have dropped dramatically from 1950 to 1990, and that was given in evidence to this committee by, I believe, one of the first witnesses. The average profit of a corporation is now 5% versus about 12% at the time you referred to in your brief. So there is a very good reason there is no corporate tax, because there are less corporate profits at this time.

Three, the federal government has lowered personal income taxes, Ontario has increased income taxes over the last four or five years. While the federal government cuts back, the provincial government has not—

The Chair: I am sorry, Mr Sterling, we have to cut you off. We have to move along with Mr Wilson. One minute is all we have.

Mr G. Wilson: I was wondering whether Ms Davidson wanted to reply to Mr Sterling. Is there anything you wanted to point out?

Ms Davidson: This could be an ongoing debate as to when and where the statistics come from, but the trends are there. They certainly bear analysis as to the roots.

Mr G. Wilson: I want to say how much I appreciated your presentation. I think it is very cogently argued and entertaining enough, supported by the references.

The Chair: I am sorry, Mr Wilson, I have to go to Mr Kwinter.

Mr Kwinter: I just wanted to follow up the comments of my colleague, Mr Sterling. You should know that last year corporations in Ontario paid \$4,482,000,000. This year it is budgeted they will pay \$3,170,000,000. That is not because they are paying less tax; they are making less money.

There is a misconception that corporations pay no tax. That is absolutely contrary to the truth. As a matter of fact, in the article in the *Globe and Mail*, they were complaining about their corporate taxes. What you are talking about is tax on profits. They pay realty tax; they pay the employee health tax; they pay the corporate concentration tax, they pay workers' compensation; they pay unemployment insurance portions; they pay an incredible number of taxes, I think it is something like 27. Now, at the end of the day, with their depreciation and everything else, they may show a loss. As a result, they do not pay any tax. But that does not mean they have not paid tax all the way along the line. That is one of the problems. They are saying they are being taxed to death, so they cannot show a profit. There is a misconception. When people trot out these things and say, "My, this company didn't pay any tax last year," they did not pay any profit tax.

The Chair: Mr Kwinter, your time has run out. Thank you, Ms Davidson, for your presentation before this committee.

CANADIAN CENTRE FOR POLICY ALTERNATIVES

The Chair: The next group is called the Canadian Centre for Policy Alternatives, Mr Duncan Cameron. You have one half-hour for your presentation and you can leave

some time at the end for question-and-answer period. I would like to welcome you to the standing committee on finance and economics. You may begin.

Mr Cameron: Members of the committee from the government side may remember that I was one of the first witnesses to appear in Toronto on this budget. At that time we were saying goodbye to Lincoln Alexander in the Legislature, and also to Robert Nixon, so opposition members were unable to appear. It was suggested I come back a second time for questions, so I am really here for questions. But for the benefit of those who may not remember from the transcript what I said the first time around, perhaps I could just summarize very briefly my comments.

1020

I did bring along just a sheet today which I think will be of some interest, particularly to those who are concerned about the health of corporations in Ontario, like Mr Sterling. If they look at this they will see there is considerable cause for concern.

The first point I made in my presentation was that I was a former Department of Finance official in Ottawa and that the budget-making process seems like a huge responsibility. How could you possibly make up your mind who is going to be taxed and how much is going to be paid? This is a huge responsibility. But in fact it is a passive process. There is a set of tax laws in place; there is a set of expenditure programs in place. Without doing anything, without bringing in any kind of a budget, you are going to have government expenses and government revenues.

The first point, which has not been widely understood, is that this is a passive budget. The current government did not make and did not take a very firm stance in one direction or another. They simply allowed the tax system to continue to function the way it was and the expenditure system to continue to function.

We are in a recession and as a result of being in a recession, the automatic stabilizers, those programs which are there to help people in time of need and to keep the spending going in the economy, kicked in and of course we had to deal with what 85% of the Canadian population believe are the wrong-headed economic policies of the federal government—incredibly high, ridiculously high interest rates and cutbacks in transfers to the provinces and a gutting of the unemployment insurance program as we go into a recession, which is a heartless policy.

My first point is that we are not really dealing with a major government initiative here, we are dealing with a continuation of policies that were already in place.

There was a modest expenditure increase of about \$1.5 billion or less, depending on how you cut it. The question then comes, and this is the second thing I guess I learned at the Department of Finance, if you are Finance minister, you have got to make a call. It is a really simple call. Where is the economy? Is it on the way up, is it on the way down or is it somehow sitting there in neutral? I think the Treasury in Ontario looked at the situation and said, "It is just not clear that we are on a recovery path here and if we don't give a little extra push to this economy it may not come out of recovery."

The Treasurer said in his speech, and I think most economists would agree with him—in fact another witness appearing before you had a statement of 59 economists who agreed that what had to be fought in this province was the recession and not the deficit. That was the second point I made, in much greater detail of course.

The third point, and I guess the one of most concern to the press, if you pay any attention to the press, is what is the impact of this budget deficit and successive budget deficits to come on the debt in Ontario, on interest rates in Ontario and on the financial structure of the province and on future taxes?

Of course, nobody is going to argue that we should cut back spending in a time of recession, but some people are going to be awfully concerned about taking on debt in a time of recession. Can we in fact deal with it?

My answer on that one—and I was disappointed that the Treasury documents did not reflect this more adequately; it is a failing on their part I think—the amount of marketable securities that the government of Ontario has in fact issued as a government, as opposed to Ontario Hydro, is in fact relatively small. We are dealing with less than \$10 billion here. The federal government has marketable securities out there of around \$350 billion.

It is not as if the government of Ontario is overloaded with debt. In a time of difficulty, individuals can go into debt, companies can go into debt, governments can go into debt. Who is best placed to borrow? Normally, we would argue, and certainly those of us who have any experience with the 1930s would argue, that governments should go into debt, not individuals and not businesses.

The second aspect of this question is, what is going to be the view of Bay Street to this government of Ontario paper rolling out? Quite frankly, my sense is that this is going to be very positive. People are going to look at this paper and say: "This is a good investment for people in Ontario. It's a good investment for people around the world. It's going to be easy to sell."

The first story that appeared in the business press after the Euro issue that was done by the Ontario government was, "Ontario Government Issue Ravaged by European Investors." They just bought it up as quickly as they could. So we are talking about a government that has the confidence of the financial community and whose paper is respected, in part of course, because there is not a lot of it out there.

I think anybody who tries to argue that the Ontario government, by having a deficit, is sending interest rates up is simply talking through their hat. Interest rates are set just about a block and a half over here by the governor of the Bank of Canada. Every Thursday morning, he walks in with his people and they give a fairly clear indication to the market and we have had interest rate manipulation in this country for the last two years. The Bank of Canada has manipulated interest rates, not in the sense that it pushed them up but it has held them up. If they had allowed market forces to deal with interest rates in this country they would be significantly lower.

We could go into a detailed discussion of this but from 1930 to 1984 the real interest rate in Canada averaged 1.5%. The real interest rate in this country in the last two

years has been in the 8% to 10% range. The gap between Canadian Treasury bill rates and US Treasury bill rates is traditionally between 1% and 2%; it is between 5% and 6%. That is manipulation and it was finally the Bank of Montreal which called a halt to the whole thing when it refused to go along with the Bank of Canada policy.

To summarize, I think a modest budget, a moderate budget, a modest spending increase to deal with the extent of the recession and the fears that are put forward about the impact of the financial markets have been grossly exaggerated.

I will just take a minute to turn to this table I brought in this morning so I would have something new to say to you. This is a table from a report which the Canadian Centre for Policy Alternatives will be bringing out shortly on the extent of the manufacturing crisis in Canada.

If you go to the last column, these are the changes in employment in Canada—I am sorry that we do not have the figures for Ontario—from June 1989 until March 1991, from the largest number of employed to the lowest number of employed, given our recent statistics.

In the manufacturing sector in Canada, we have lost 435,000 manufacturing jobs. That does not include service jobs or other jobs, but that is net loss of manufacturing jobs. This indicates the sector.

The next sector—one of our biggest employers—is the food and beverage sector. If you look at the second-last column, we have only lost 1.5% of real output in that period. That means the amount of physical food and beverages being produced is only down 1.5%. The number of people employed in that sector is down 22%.

I would just throw out for you—and I would hope you will be investigating this in your future work because we are really counting on an active committee system as being an important contributor to democracy in this province—then I hope you will look into the impact of the free trade agreement on the Ontario economy. My reading of that figure is a really simple one. The food and beverage production is being maintained but jobs are being lost. That means they are being moved to the United States. That of course is a major manufacturing sector.

If you just go down the list, whether it is on the output side or the employment side, you will see that in the furniture sector we are down 30% in employment, the leather sector 37% and these are, of course, the sectors that were identified as the most vulnerable sectors under free trade.

The Ontario government is facing a crisis, not of its own making, but which is the making of federal government policies: the GST, the free trade agreement, high interest rates and the cutbacks in social spending. Quite frankly, the majority of economists in this country believe the NDP government went the right way by not in fact cutting back on social spending at a time of recession.

Mr Sutherland: Thank you for appearing before the committee again and bringing forward some new information. In light of this new table you have presented to us, what advice would you be giving the government of Ontario in terms of—given the fact of the tremendous disastrous impact of this free trade agreement and the way it was negotiated as the evidence presented here, that the

agreement is in place, that we have what seems to be an unsympathetic federal government right now and at least for a couple more years, what advice would you give to the government, besides the budget policy, in terms of turning the economy around and making Ontario competitive again in the global marketplace?

1030

Mr Cameron: I think I would be very closely monitoring. There are a lot of economic statistics and it is hard for anybody to make sense of what we should be looking at, but I would be looking very closely at two key economic statistics: private investment and full-time job creation.

If I had a sense that private investment was not increasing I would be looking very closely at employee ownership plans or the development of a private-sector investment bank or some additional public spending mechanisms so that money borrowed in bad times is invested in Ontario's future. If the private sector is not doing it, then I think the public sector has to do it.

Mr Sutherland: Would there be specific sectors that you would recommend to the government to be investing that money in?

Mr Cameron: Far be it from me to start to suggest in which sectors we can in fact look forward to good market opportunities at this time. I think the Ministry of Industry, Technology and Trade has to be identifying these kinds of sectors. I think you have to be talking to people in factories who are working on these different products. It is quite clear that there is a limited return in the high-technology sector. There are only 500,000 jobs there, but something has to be done in high technology. I think that meeting basic needs, the construction industry, the furniture industry, is what an economy is about. So the basic needs industries have to be looked at carefully.

The trade agreement is a serious constraint on what the Ontario government can do, but I think the Ontario government should simply ignore it and go ahead and do what it was elected to do. If the Americans want to complain about it, then that can be dealt with between the federal government and the American government. I do not see any US states stepping back, because of the Canada-US free trade agreement, from helping their industries in difficult times like there are in the United States right now. I do not see why the Ontario government should do it.

I would also be tempted to play very tough with the federal government this time. The province of Ontario has played a very important role in the past in constitutional negotiations. The parties in Ontario supported the Meech Lake accord. The Prime Minister of Canada wants the support of the government of Ontario and of all the parties in Ontario on this, and I think that if Ontario is going to participate fully in this, there should be some conditions.

There have to be some changes in government policy or the Ontario government is not going to play. This is too serious. What we are dealing with here is a crisis, a serious crisis. These jobs are not coming back and these industries are not coming back unless there is a shift in public policy.

Mr Sutherland: Your overall assessment of this budget, though, would it be similar to that of Mr Frank of the

Conference Board of Canada, that you feel the strategy we took in terms of maintaining the services, some extra expenditures in capital investment in the infrastructure, is one that will help stimulate the economy and bring us out of the recession quicker?

Mr Cameron: I congratulate Floyd Laughren and the people at the Ministry of Treasury and Economics for not panicking in the face of a budget deficit figure which a lot of people have tried to use to scare other people. I congratulate them for having the guts to stand up and look it in the face and say, "This is the thing to do and we're going to do it."

Mr Kwinter: Mr Cameron, I just wanted to ask you about your deduction in the food and beverage sector before I go. I agree with you, I think we are in a manufacturing crisis in this country. Ontario being the base centre of manufacturing, it is going to impact on Ontario far more severely than anywhere else in the country.

But do you not think there is another reason for it? This is a change in real output in Canada, and if the real output has only declined by 1.5% and the employment has gone down by 22.6%, it would suggest to me that it was probably as a result of automation or greater productivity or efficiency, but certainly not because the jobs went to the United States. They are not talking about North American output; they are talking about Canadian output.

Mr Cameron: If I can just respond to that, the statistical agencies like Statscan are not sophisticated enough to be able to pick up all the changes. Say there is a tomato farmer near Leamington. He produces some tomatoes, they go into a can and Heinz sells the tomatoes. But Heinz could very well bring in the tomatoes from the United States and put them in a can and you would never see the difference in the statistics, and Heinz could bring in the can and put a label on it and it could be called Canadian output.

So it is very difficult to get the precision. When we look at the statistics we look at raw data and it is very hard to know, but I find it incredibly suspicious that output is being maintained while employment is dropping like this.

Mr Morin: This is only a technical question. You mentioned the average interest rate from 1930 until today was but 1.5%.

M. Cameron : Je parle des taux d'intérêt réels, c'est-à-dire les taux d'intérêt une fois que l'inflation...

M. Morin : La seule chose qui m'inquiète, c'est que si vous regardez réellement les chiffres, les taux d'intérêt ont augmenté à compter de la commission Carter. La compétition qui existait à ce moment-là entre les banques et les caisses populaires, les credit unions, et ainsi de suite...

The Chair: Excuse me, maybe we had better hand out the—

Mr Cameron: Okay, we'll do it in English then.

Mr Morin: Okay. If you recall, the interest rate changed after the Carter commission when there was competition among banks, trust companies and credit unions, and rates of interest at that time went sky-high. I was in the bond market for close to 15 years. I sold 3.5% bonds, 4% bonds. The interest rate at the bank was 1.5% on your savings. So you have got to be careful how you play with

these figures, because the true picture should look from the Carter commission until today.

In 1982 you had 18%, 20% on government of Canada savings bonds, something which had never been seen before. So I do not see high interest rates as a bad measure, if you compare, for instance, with Latin America, with Argentina and all those countries where money changes from 18% to 20%. What do you say to that? You have to be careful with figures.

Mr Cameron: Yes, I agree with you. You do have to be careful.

The Chair: May I just interrupt for a second? We do have the services of an interpreter here if you would like to—

Mr Morin: No, no, no. The committee is bilingual, so I—

The Chair: I just want to make it clear that we have got it there; we just have not handed them out yet.

Mr Cameron: The Porter commission was the commission on banking and finance. The Bank of Canada Act is changed every 10 years, and what happened in 1967 was that there used to be a ceiling on interest rates in this country—

Mr Morin: That is right, 6%.

Mr Cameron: —a 6% ceiling and they took the ceiling off and the argument was at the time, "Well, all this competition we're now going to have with the trust companies coming in and the banks and so on, interest rates are going to come down." Anybody who believes that believes in the tooth fairy.

The competition in the banking industry is not the basis of it, nor should it be, because in an open, competitive system in the banking industry you get banks going bankrupt, which is what they have in the United States. I prefer a regulated system and I think if we had kept some kind of regulation on how much banks could charge for their loans it would have been a good thing.

I agree with you that there have been tremendously wide variations internationally, but I maintain that the two legitimate points of comparison are: the absolute rate of real return after inflation, which was constant from 1930 to 1982, and a lot of those movements you are talking about and point to, quite correctly, started in the 1970s; the second is, what is our interest rate with respect to the other industrialized countries, particularly the United States?

The governor of the Bank of Canada has been very clear. He just will not stand for anything but zero inflation. I think he is absolutely wrong, dead wrong, and I think he has caused a tremendous amount of grief in this country, and I think the federal government is dead wrong to allow him that much power.

Mr Morin: Just one little comment. There were more benefits in the United States, of course, with buying municipal bonds that are not taxable. Here you are fully taxable. If you look at the problem of the economy you have to look at the base where the real money is being borrowed, at the municipal level.

Mr Villeneuve: Mr Cameron, you have been very eloquent in your chastising of the federal government for its monetary policy, and I guess you know something about

that, but in the same breath you encourage the government of Ontario to go right down the same path.

At the federal level, approximately 35% of gross revenue goes to support the debt. In Ontario it is now between 11% and 12%. In four years' time we will have doubled our debt, basically, from \$40 billion to \$75 billion or \$80 billion. What do you feel, as a learned person who has worked in finance, will be the total cost to support the debt, not to wipe it out or lower it but just to support it, in 1994 or 1995?

1040

Mr Cameron: I think a lot depends on what kind of monetary policy we have. We have a serious problem. If you have a real interest rate of 6% to 8% and you have economic growth of 2% to 3%, your debt—yours, Mr Villeneuve; mine; the company down the street's and the government's—is going to increase by the difference between the growth rate and the real interest rate—in this case, by 3% or 4%. It does not matter what you do on spending. It does not matter. The federal government has been cutting spending like crazy, and the debt has been going up. So the issue is not spending.

There are people who believe the government should play a very small role in society and we should reduce the role of government. With those people, let's have a discussion about the role of government. But if the issue is finance, I say that the issue today is interest rates. As long as interest rates are in the real-interest-rate range of 5% or 6% and economic growth 2%, 3%, you are going to have increasing debt. It does not matter what base you start from. So the problem is interest rates.

The government of Ontario, unfortunately, does not control interest rates, and it is being pushed by the federal government in a direction that I think is going to make the situation worse in Ontario. That is why I would argue that the Ontario government, with other provinces and with other groups, should be arguing for a major shift in monetary policy. I know that this has been said, and all I can say is, keep it up.

Mr Villeneuve: A very socialist government in France went the direction which you are suggesting for a very short time when it realized that its investors were literally leaving in droves. They came back to their senses in a hurry. Is not—

Mr Cameron: I was in France. I did my PhD work in France, and I was there when the common program was being put together by the Communist Party and the Socialist Party when they came to power. Remember that the key part of that program was to nationalize a whole series of industries in France. That has not happened yet in Ontario, and I do not think it is even on the program.

Mr Villeneuve: I am glad you say "yet" because I am afraid.

Is not one of the major culprits in increasing interest rates the borrowing of governments, both federally and provincially? You are encouraging them to double the provincial debt, and yet you say, "Bring down the interest rate." Is that compatible?

Mr Cameron: If you look at the figures, the largest and most indebted sector in society is individuals, the second is corporations and the third is governments, and the persons who are the best able to deal with debt are governments, much better than individuals or corporations.

Mr Villeneuve: I am glad you said "yet" to the previous question. Thank you.

Mr Sterling: What is the Canadian Centre for Policy Alternatives? Whom do you represent?

Mr Cameron: You will be interested to know that it is the only economic research group in Canada that does not receive its core funding from business or government.

Mr Sterling: Whom do you receive your core funding from?

Mr Cameron: We do not have any. It is basically individuals. We have support from trade unions, from women's groups, from church groups, from individual members. You could join if you want. It is a \$25 membership, and—

Mr Sterling: I understand Evelyn Gigantes asked you to appear in front of this committee, and that is what I thought—

Mr Cameron: Actually, I think initially the government asked Mike McCracken of Informetrica and myself to appear in Toronto.

Mr Sutherland: Mr Chair, if I could just clarify for everyone's information here, it was agreed that each party would bring in experts at the very beginning. As Mr Cameron has already explained, he appeared before the committee once, but it was because it was the day Mr Nixon was resigning and not everyone was here that we asked him to come back again.

Mr Sterling: It was not clear here today that he was here on your party's behalf, though.

Mr Sutherland: Yes, well, he was here on our behalf as part of the experts, as each of the two other parties had their specific experts.

The Chair: I would like to thank you for your presentation before this committee this morning.

Mr Cameron: It is a pleasure to come. It is going to be a very difficult period in Ontario in the next two to four years. You have your work cut out for you, and I wish you the best of luck.

DOUG GABELMANN

The Chair: The next presenter is Doug Gabelmann. Would he come forward, please? I would like to welcome you to the standing committee on finance and economic affairs. You have up to 15 minutes for your presentation, and in that period of time if you can leave some time at the end for questions and answers of the three parties, and you may begin.

Mr Gabelmann: Thank you very much, from the macro to the micro. I represent a company of nine permanent employees, and we operate in the retail sector, in sporting goods retail. We also have a small consulting company which works in the area of transportation issues. We additionally employ seasonally approximately another 10 or 12 employees, and we think, as such, fall into the

category of a small business much like many, many others in the province of Ontario.

The reason I decided to attend this committee is precisely because we have not heard our views expressed through the small business organizations to date. In our view, what they have represented has been a rather dogmatic response to the recent budget, and we would like to present a different view on that budget.

Our view of the budget is based upon our own experience, and I want to concentrate on that. I know you are getting into some more important broad issues here, as we have just heard, but we think at the same time it is important to understand what is happening on the street, certainly in the retail sector.

We have been a company which has enjoyed a great deal of growth over the years—and increasing profitability, frankly. We had this experience basically from the last recession, when we opened, to midway through the current recession. Over the course of this winter, for the first time, we began to see a drop in the rate of increase in our sales. We began to see a tightening up all the way around in our own business, and we began to witness a different attitude among our consumers, who were becoming much more conservative, much more cautious in their spending, essentially more nervous. The consequence of this was basically for them to spend less. We are all aware of this. This is what the macroeconomists talk about, but we saw it in our own monthly reports, in our weekly sales, in our monthly sales reports and so on.

The impact of this was for us to in turn become very cautious, so that when in turn the representatives from advertising media, many of whom work on a commission-only basis, came to renew annual contracts and so on, we had to say to them for the first time in years: "No. I know we have been very aggressive in the past, but we are going to sit back and play this cautiously, just as our public seems to be playing it cautiously." We were very nervous. We were in an environment which had been battered by, I suppose, the big issues of the day, the failure of the Meech Lake agreement. All in all, as you know, there was a general downturn in the economy that had people very, very nervous; essentially a drop in real income for many people. We were in turn becoming a part of that process and beginning to affect the lives of those people who supply us with services and products.

1050

In that environment, we were very pleased that the provincial government decided to at least maintain the level of spending. We think that in fact it amounted to the first piece of good news that we had heard in a long time. Our response to it, frankly, was to call in our advertising people and to double our budget, which for a small company like ours represents a significant risk. As many of you would be aware, expenditure on advertising can often return improved cash flow, but with any kind of failure at all in that campaign you see your profits plummet.

But we felt for the first time that there had been a change, or there was at least one level of government that was going to make an attempt to calm the public nervousness. From our point of view, to some extent—we sat down

and analysed it from our limited experience and decided that it was going to have a positive impact. I must say that consequently we, through the later months of the spring and the summer, again enjoyed the type of increases in sales and growth that we had been used to for the past few years. That is perhaps not directly attributable to the provincial budget, but it is to the extent that our confidence was heightened by that type of budget, by that refusal to get into the slash-and-cut-back game.

We looked for evidence of the success of that type of program anywhere else in Canada, certainly at the federal level, and have not seen it. That is not to say that we do not think within the purview of the provincial government there are possibilities for a more efficient use of public moneys, areas where money should rather be invested. But we think that using the mechanism of public spending to stimulate the economy, and certainly to stimulate confidence in the economy, was a wise move.

We really do not have a lot else to say besides that, except that we are also concerned with the other aspect of the alternative policy, the cutback policy. That is that it has never really been made clear, by people who talk about the need to enter the latter part of this decade with no provincial budget debt, where those savings are going to be effectively made, on whose backs they are going to be made.

Before our business, before myself as an individual, before my colleagues would be prepared to support an alternate program, we would like to see it laid out. We want to know whose ox is going to be gored by a program of cutbacks. In our own world, just to sum up, we certainly know that had we not had the type of budget that we have, some oxen would have been gored. They would have been those of our suppliers; they would have been some of our employees who would have faced layoff. To some extent they would have been ourselves, but the advantage of a board of directors in business, of course, is that it can really protect itself, often at the expense of others. Nevertheless, it is our responsibility to keep our businesses viable.

I do not have much else to say on this point. I hope the finance committee and the provincial government, the provincial Legislature, will spend time looking at the important issues of the restructuring of the Ontario economy in light of the changes to the international economy. We hope the Ontario government can and will be successful in convincing the federal government to live up to its promise to deal with the necessity of retraining workers who are finding themselves unemployed.

I do not know if you have any questions, but that is about it.

Mr Sterling: I take your submission as a straightforward submission, and I think it is a fair comment for a person involved in small business to make.

One of the real concerns that I have about this budget is the forecast for substantial deficits, not only this year but the next three or four years. Even with those increases, it assumes that there is going to be, I believe, a 5% increase in taxation in order to hit those deficit levels next year. In other words, to hit \$8 billion—whatever it is that the Treasurer predicts for the 1991-92 budget—he has got to increase taxes by about 5%.

This was shown by, I think, one of the accountancy firms in Toronto. I guess it is the accumulation that—the prediction is, in his own budget, that we are out of the recession next year; the following year we are in a positive growth area. He is predicting increased taxes and he is predicting still a healthy deficit. Some time you have got to meet your Maker.

That is, I guess, the greatest concern that I have heard in the business community. They can acknowledge that some deficit is necessary in tough times, but it is the future prediction. Have you any comments in that area?

Mr Gabelmann: Well, these have been tough times. To a great extent we have been insulated in Ottawa, but they have been tough times, and even here there have been a lot of difficulties in the business sector.

I am not clear from your comments whether the provincial Treasurer is predicting an increase of 5% in the overall growth of tax revenue or whether you are talking about each individual paying an additional 5% in taxes. I assume that what we are talking about there is that from the increased activity in the economy, there will be growth in tax revenue.

I certainly think that is important, but we have to at the same time weigh all the considerations against the alternative. Just from our own experience, we would have seen a fall in revenues to the provincial and federal governments had we not decided this May to expand expenditures rather than curtail them or to stick with our plan of curtailment for the year.

I do not know to what extent that is—

The Chair: Excuse me. Could I go on to Mr Jamison here?

Mr Sterling: Thank you.

Mr Jamison: Mr Gabelmann, I found your presentation very interesting, especially your reference to whose ox gets gored. I really think that is an important point to try and bring forward and I have tried to do that. Certainly if there are alternate budgets, we have not clearly heard that from the other parties.

The anti-recession programs, the \$700 million—\$102 million of that spending in the infrastructure area of the province is being spent in eastern Ontario. I believe the amount in the Ottawa area is over \$18 million. As a small business person, I know that our efforts in housing that relate to the budget announcement, added efforts in the housing area and so forth, affect small business, keep some small businesses in the construction area viable during this time. The anti-recession program, of course, supports the infrastructure, which in many cases supports business in the long term.

When you speak about anti-recession spending, a lot of it is being bidded out there in the community and the bids are coming in as much as 20% lower than they would normally cost. It is nice to hear you speak about that, but have you noticed an effect in the community and in the area?

Mr Gabelmann: I think what we look at—and I honestly think what just about every small business looks at in any case, where we do not have the ability to engage economists, planning bureaus, and so forth—is our month-to-

month sales figures. We look at the cash that is crossing our threshold. We are in the business of turning cash. That is what we do. We turn product, but essentially we are turning cash around.

It may not be ultimately a desirable situation to have a society that is led by consumption, but I think that is what we are in. It may be that ultimately we will want to change it, but I do not think that is what we have to address in the short term. What we see, and we think people are looking at, is how many dollars they are getting paid for their services or for their products and how much of their stock they are turning over. To the extent that a slash-and-cut budget would have reduced that, we think it would have had a very, very negative effect, one that would have rippled right up and down and across the economy.

We hope the Legislature can over time address some of the broader issues. I do not think anyone considers it desirable over time that government become indebted beyond ability to pay and indebted to an extent that it becomes unable to introduce changes to existing programs or to offer new programs—or even, as we find in the United States, they seem to be finding themselves in a position of being unable to maintain even their infrastructure.

The Chair: Okay. I would like to thank you, Mr Gabelmann. We have run out of time, and we would like to thank you for your presentation before this committee.

Mr Gabelmann: Okay. Thank you very much. I should say that we are actually on our way to another meeting to spend some more money on a new point-of-purchase system.

The Chair: Okay. That is good.

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OTTAWA DAY PROGRAM COMMITTEE

The Chair: The next group to come forward is the day programs, Mr James Gregory, and the Somerset West Community Health Centre. I believe both of you are going to share the 15 minutes.

Mr Gregory: That is correct.

The Chair: Okay. I would like to welcome you here to the standing committee on finance and economic affairs. In that 15 minutes you can leave some time at the end of the presentation, but it is not necessary that you leave a question and answer period at the end. Could you identify yourselves and who you represent for the purposes of Hansard.

Mr Gregory: My name is James Gregory. I am the assistant director of the Shepherds of Good Hope and I represent the Ottawa Day Program Committee, which has seven-day programs in the Ottawa area. I am here with Norma, who is a user of the day programs and will comment on the day programs from a user's perspective. I am going to be very brief here.

The seven-day programs that I represent—and they are on the handout you have in front of you—serve about 500 to 600 people a day and throughout the year a population of approximately 10,000 users.

The first issue I would like to bring forward is that we appeal to you as a committee to recommend that funds are not cut to the day programs throughout Ottawa and also

throughout the province. Our own experience here in Ottawa is that one of the seven-day programs is not being funded at all with provincial funds and none of the day programs received any kind of cost-of-living increase this year.

My second recommendation is not only do I appeal that you do not cut funds—and I know that with the cap limitations there is pressure for you to do so—but that you increase funds to day programs in two ways: to increase the provincial limits so that the region can contribute more money as well, which it is willing to do—there is a ratio of 20% to 80% in the amount of money the region can contribute—and also to index the funding to day programs to the case loads of the welfare, the family benefits and the UI numbers.

Very briefly, what do day programs do? One way to describe what day programs do is that they are the living rooms and the kitchens for marginalized people who have no place to go other than a room. It is a place to drink a cup of coffee, to watch TV, to play cards, but it is very much more than that. It is often the difference between keeping your room or your place of living or losing it, a place that supports a person staying out of jail, a place where a person can get help in any number of different difficulties such as not getting a his welfare check or helping him find a job. It is also a place to connect with professionals such as welfare workers, doctors, nurses and psychiatrists. It is a place to learn life skills and, in general, it is a place to be supported in the movement towards independence.

I have a much longer list here, but Norma is here to speak briefly on what it is like to be in a day program from a user's perspective. She has used most of the day programs in the Ottawa area.

Norma: Seven years previous to that I had been connected with The Well resource on a very peripheral thing. Just over two years ago I came to Ottawa. I came with a change of underwear and an extra pair of jeans. I had no ID. I had nothing. I was physically and mentally very ill. Through the last two years, with the exception of the Caldwell Family Centre, I have used all of these programs at different times. I do not think I would actually be in this world if it was not for those programs. It was very difficult. I am still in touch with them. They are very relevant and meaningful.

I am on disability now, so I do have a very small income, but it is safe. The fact that these programs are out there means that I can actually function. I can become someone. I can feel like I am a valuable person and I am also aware that I am speaking for a great many other people who actually could not, for one reason or another, come here because they are too sick to even come. They need these places desperately, for whatever reason. Some of them have had good jobs, education and, for some reason, have lost them. Some people have never had those things. Some people will go into those services and move on and out of them and some people need them for ever. I am just asking you, please keep them open. They need more of them. Thank you.

Mr Gregory: In closing then, just to reaffirm, I would like to recognize the role the present government has

played in supporting and serving the social services programs in the province and just to appeal once more that in the case of programs like the day program, they do cost money. I recognize that, but in the long run they save money. They keep people out of jail, they keep people out of hospitals and mental institutions, they reduce the demand on emergency shelters and emergency wards in hospitals and mental institutions. In the long run, prevention, although it is not as appealing or as sexy, is a better use of provincial dollars.

So we ask you that rather than cut funds, and I know there is a temptation to do that, you increase funds because the day programs are vastly underfunded now. As I mentioned, some of the programs are not even being funded at all with provincial money. Just as a thought in closing, this province has the opportunity that instead of fostering dependency on institutions, that increasing funds to day programs you can support independence and also promote human dignity. Thank you.

Mr Sutherland: Do we have time for questions?

The Chair: No, Mr Sutherland. There are two groups here and they are going to each share seven minutes to make their presentations.

SOMERSET WEST COMMUNITY HEALTH CENTRE

The Chair: Would the next group come forward please? That would be the Somerset West Community Health Centre. I would like to welcome you here to the standing committee on finance and economic affairs. For the purposes of Hansard would you please identify each person who is there sitting at the table in your presentation.

Mr McCarthy: I can introduce all the members of our panel from the Somerset West Community Health Centre. Karen Leung is a social worker in our Asian social service program at the Somerset West Community Health Centre. Cathy Munroe is a member of our board of directors and also somebody who uses the services of our centre. My name is Jack McCarthy. I am the executive director of the centre. Louise James is a senior citizen who uses the services, again one of the programs at the centre. Sally Rutherford is the chairperson of our board of directors. We will make a brief presentation to the committee.

Ms Rutherford: Good morning. Thank you very much for your time. We are going to try to be very brief here. Somerset health and community services has been around for about approximately 19 years. What we will be handing you out will say Dalhousie Health and Community Services, largely because we had a change of name at our annual meeting this year in conjunction with the move towards a larger facility, which the provincial government has generously funded to a great extent, that will permit us to continue the kind of work that we have done over the past 19 years. We hope to be able to continue to do that with your help over a lot longer period than that.

Our clients are primarily the residents of Ottawa's central west end, although we do provide some services that are region-wide. We are a multicultural service, something we pride ourselves on. We have the only southeast Asian support network in the province. We do serve a wide range

of cultural groups. We have a staff of approximately 65 persons and 15 different health and social service programs, all of which are almost entirely dependent on provincial funding one way or another.

Our budget is approximately \$3.5 million and our roster basically amounts to somewhere around 7,000 persons. We are the largest centre of our kind in the province. I guess the corollary to that is that our programs generally work on a "small is beautiful" basis. We try to provide very personalized service to all of our clients and run a very wide range of services, everything from our seniors' program and our southeast Asian program, to family support and enrichment programs, which you also fund. Our crisis workers are crucial to our services. We provide a very comprehensive service that includes everything from primary health care right through almost every sort of social service type of service that one could try to offer.

That is how we feel we do our best work, by being able to provide a very comprehensive service. Someone who comes into our primary health care service with a particular health problem is looked at, not just from the point of view of being given a prescription and a Band-Aid but very often being taken on down the hall by the hand to someone else who can help him get through some of the other problems he has to deal with, which are in many cases, if not most cases, with our clientele the actual cause of their physical problems to begin with.

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They are the kinds of services we are hoping you will see fit to continue to fund and to promote. Our neighbourhood—you are in it just about here; down the hill, down the cliff—is a fairly transient neighbourhood, a fairly low-income neighbourhood that is to a large extent a catchment area for new immigrants, for single parents and people who generally do not have the advantages other people do. I would like to hand it over to Jack.

Mr McCarthy: Again, just briefly, we like to think we are a centre where the rhetoric of combining health and social services to meet the needs of the community is met in terms of what Sally said, a comprehensive range of health and social services. But we are in the trenches, if you will. We are seeing many things happening today and these are tough times. Just to emphasize the pressure, the pressure we are trying to respond to is there. For example, in terms of the numbers of people, we have upwards to 60 people drop in a day. That is a 15% increase over the previous year. We support the local food bank. Last year, between January and July they served over 9,000 people. This year they are serving over 12,000 people, the same people who come through our doors. There is a dramatic 24% increase in the number of people who are using food bank services. These are tough economic times.

The St Luke's Lunch Club, for example, another service that we closely work with, has had a 20% increase in the number of people it is providing lunches for. Housing Help, an advocacy organization we work closely with, has had a dramatic increase, from 10,000 to 19,000, of people looking for affordable accommodation. The demands are there and they are increasing. I suspect all members of the

committee know some of those broader economic realities out there that are contributing to the demand placed on our services. I know we are running out of time. I would like just to put it to a couple of other members of our committee who can just tell you in their words what it feels like.

Ms Munroe: I am Cathy Munroe. I want to identify myself as a user of the day program as well. This is a large community. This is a family for me that replaces the family that I did not have. I have used The Well, the lunch club and the Shepherds. I know these people. Like Norma, I would have been dead, I would not have survived. I have had an opportunity, both through The Well and being on the board and the committees at Dalhousie and now Somerset West, to grow.

I live in danger of eviction in the next six months through redevelopment. I came from welfare up to the FBA system. I have had an opportunity to speak on Parliament Hill on the CAP thing, through Dalhousie. I have had chances to come here and talk about child poverty, about the kids I see every day in the neighbourhood at the lunch club and The Well—my kids are grown up—who have never been to a shopping centre or who have never been to grocery stores.

When I go into Dalhousie, I can talk to the crisis people, housing help. I have had many problems with my landlord. He is not the worst—he is not the best. But I have also noticed, when I am in there waiting to talk to my friends at the crisis team, there are mothers who have bruises on their faces, because their husbands or their boyfriends have lost their jobs or they have, and they are taking the brunt of the economic recession.

I look at the shoe box that started as a protest to David Peterson to get the SARC reforms going. Now the shoe box—most of the staff at Dalhousie put in their shoes that are worn out to their standards. Someone who is coming in looking for a job and needs a good pair of shoes, there is a sign saying, "Take one." I go into the washrooms, and maybe this is not the place, but I am going to say this too—we practise safe sex, and there are paper bags with provisions in the washrooms.

Again, it has allowed me to grow enormously. I do not want to have to go back and beg for more money, but let's keep this going. This is my family.

Mrs James: My name is Louise James. I am a senior citizen. You know senior citizens are on limited finances. I am one of the fortunate ones. I have maybe a little more than others. But in the building that I am in, there are people who are living there from cheque to cheque. Some of the opportunities that I have become involved in with the Dalhousie centre are free, have been offered to me, and it is a great blessing because I would not be able to afford these things. I thank them for this.

The Chair: I would like to thank you for appearing before this committee. I am sorry that the time has run out, but we have one more presentation. After that period of time, if you want to talk to some of the members as they are leaving the room, maybe you have some questions.

Mr Morin: Mr Chairman, can I just make a comment?

The Chair: Yes, Mr Morin.

Mr Morin: I had the occasion of visiting some of their groups. I had lunch, as a matter of fact, at St Luke's. I have nothing but admiration vis-à-vis these people. They do a tremendous job. Thank God you are there. I think there is no one in this group—I think I am quite right when I say that—who would have any intention of cutting any of your funds. On the contrary, I think our responsibility is to help you out, because the more organizations like yours in existence, the more of the burden you take away from the government itself. I just want to congratulate you for the excellent job that you do, and keep on with the good job.

Ms Rutherford: If I could just close by saying that is exactly how we feel.

The Chair: That is why I have not made that offer to any other group—that the members will be breaking at a quarter to 12 and that they would be able to talk to you at that time. I would like again to thank you for appearing before this committee.

CARLETON BOARD OF TRADE

The Chair: The next presenter to this committee is the Ottawa-Carleton Board of Trade. Would they come forward, please? I would like to say good morning. It is getting a little late in the morning, but welcome to the standing committee on finance and economic affairs, and on the budget review. You have up to one half-hour for your presentation, and if you could leave some time at the end for questions and answers of the committee. If you would not mind identifying yourself and your position for the purposes of Hansard, you may begin your presentation.

Mr Wightman: My presentation is probably only about 10 or 15 minutes at the most, and then you can hit me with your questions. Thank you for the opportunity to present the views of the Ottawa-Carleton Board of Trade. My name is Tom Wightman. I am vice-chairman of the board of trade, and with me is Lisa Hopkins. She is the president of the Ottawa-Carleton Board of Trade. Today I will address four issues which are of particular concern to our members.

The first is the projected deficit of \$9.7 billion. I would ask that you do not read that right now. I was hoping it would not be handed out right away. Flip it over, otherwise I think people will be looking at it as opposed to listening to me.

The Chair: A lot of the members like to make little notes beside comments made to ask questions later on, if you do not mind that. They are listening, I can tell you.

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Mr Wightman: The first is the projected deficit of \$9.7 billion. The second is the fact the provincial sales tax has not been harmonized with the GST—we think it should be. The third is the Fair Tax Commission study of an alternative minimum tax for corporations. The fourth is the claw-back of the reduced tax rate available to small businesses in Ontario. Those are the four issues which I will address briefly today.

Much has been written about the proposed deficit for the current year of \$9.7 billion. What I thought I would do is say what it means in real terms to the people of Ontario. The projected combined deficit over the next four years is

\$34 billion. That is the deficit adding up the next four years, as projected by the Ontario Treasurer for the next four years. This amounts to almost \$4,000 for each of the approximately nine million people of Ontario. That is \$4,000 per person in accumulated deficits over the next four years.

That means a family of four will have to carry an additional burden of \$16,000 of debt as a result of the projected deficits over the next four years. That is \$16,000. A family of four in Ontario will have to save \$16,000 over the next four years just to equal the increase in provincial debt. That is just to stay even. If you add the federal debt to that, which would be another \$16,000, a family of four has to save \$32,000 over the next four years. If you do not do that, you have not even broken even.

Provincial expenditures are expected to increase by 12%, or approximately \$5.2 billion, in the current fiscal year. This is simply unacceptable, given the deficit that the Ontario government is facing. The ability for the province to borrow is currently strong, but remember, the debt has to be repaid. There is a limit to how much we can borrow. It is against Canadian traditional values to spend more money than we take in. It is unfair to burden our children and our children's children with the enormous debt that is being built up.

Businesses and individuals must balance their own books. I have to do it. Everyone on this committee has to do it. The people of Ontario elect their government to take the tough decisions required to achieve a balanced budget, not to take the easy route of ever-increasing spending. And it is an easy route.

The provincial government must reduce overall expenditures, and it should slightly increase the level of taxes being collected to control this deficit. To that end, the provincial sales tax should be harmonized with the federal GST in a manner which will increase revenue. Harmonizing would have the following four benefits:

1. It would eliminate the cost of maintaining the provincial sales tax system and the cost of collecting that tax. The result would be the federal government would collect that GST and simply remit the provincial government's portion over to the province.

2. It would widen the base on which the tax is collected. This would allow the rate to be reduced somewhat, while still increasing the total tax collected.

3. The administrative burden currently placed on businesses in having to collect and remit both the provincial sales tax and the GST would be greatly reduced. For those of you who have run a business, you may know that it is very, very difficult for the small businessman today. You have to remit workers' compensation, unemployment insurance, Canada pension plan payments, employer health tax, GST, provincial sales tax. You have to file a federal income tax return and a provincial income tax return. There is an awful lot of stuff you have to do when you are in small business, and it is very difficult for those guys to do it.

The provincial Treasurer has indicated that he will ask the Fair Tax Commission to study the implementation of a corporate minimum tax. We are concerned with having a corporate minimum tax, largely because it sets up a parallel income tax system, which will in turn increase the complexity of the

income tax system. In effect, corporations will have to complete two corporate income tax returns, one for the regular tax system and another for the minimum tax system. So instead of just doing one corporate income tax return, you will now have to complete two. That is how an alternative minimum tax system works. You look confused at the back there, but that is how it works.

Ontario corporations currently pay a relatively high rate of income tax as compared to our neighbours in Quebec and the United States. By implementing a corporate minimum tax system where a corporation will pay the greater of its income tax payable under the regular system and under the alternative minimum tax system, corporate taxes will increase—which will make Ontario corporate tax rates even more debilitating than they currently are.

4. Our final point is that we disagree with the proposed claw-back of the small business deduction. Before the provincial budget, a small business corporation could earn up to \$200,000 of active business income in Ontario, paying combined federal and provincial taxes at 23%. Earnings in excess of \$200,000 are taxed at 44%. That is the way the system works. On top of that, when a corporation gets the income into the hands of individuals by way of dividends, individuals pay income taxes on dividends at another rate of 25% to 35%. That is the way it works. I would say small-business owners have paid their fair share of income tax by the time they get their earnings out of the company.

By comparison, a business operating in the province of Quebec pays Quebec and federal income tax at a rate of 16% on its business income of \$200,000, and 30% thereafter. This compares to 23% versus the 16% and 44% versus the 30% in Ontario. We in Ottawa see this as a particular detriment to operating a business in Ontario versus across the river in Quebec. This has implications not only for those who are thinking of starting a business in one province versus the other, but also for our ability to compete with our neighbours across the river, who enjoy a substantially lower income tax rate and consequently have more after-tax funds to reinvest in their businesses. It just becomes tougher and tougher to compete.

In summary, we have concerns in four areas. The size of the deficit—a projected increase by \$34 billion, or \$16,000 per family of four, over the next four years. The fact that the provincial government has not moved to harmonize the provincial sales tax system with the GST, with the associated savings in the cost of collection and the larger tax base on which revenue can be raised. The study of a corporate minimum tax system, which may lead to even greater corporate taxes and a much more complex system. Finally, the claw-back of the reduced income tax available to small business, which would widen the discrepancy which already exists between Ontario and Quebec, not to mention our neighbours in the States.

Thanks for your time. We really do appreciate being able to sit in front of this committee, and I will certainly entertain any questions.

Mr Sterling: Thank you very much for making your presentation. It seems that most businesses have not had an opportunity or the time to come down and make their thoughts heard.

Yesterday we were in Cornwall. There was a concern over cross-border shopping in particular, which was brought to the fore by the mayor of Cornwall, Mr Poirier. We, in my party, have advocated a merging of the GST and the PST, because we feel that it would be easier for business people. That would be one of the benefits.

Mr Wightman: Good.

Mr Sterling: I guess the other benefit would be that there would be an advantage, I think, to the government in total revenues, because of the savings in their costs. However, we suggested in our report on cross-border shopping that the benefit not be to reduce the overall sales tax of 15%, but that the gas tax be reduced specifically, because we view that as being the primary cause of cross-border shopping, as evidenced in front of this committee. Would you care to comment on that at all?

Mr Wightman: I was really looking more to Ottawa, as opposed to the cross-border shopping. It is a problem in Ottawa. We do have a lot of people who go south, particularly on Sundays, who go down and shop across the border. We agree with you on the gas tax. We agree with you 100% on the gas tax.

Mr Sterling: I tell you, it is an issue in Manotick, where I reside. In fact, the retailers are losing business there to cross-border shopping. They talk to me about it all the time.

The other issue I would like to talk about is, have you gathered any statistics on how cyclical the businesses at the board of trade are? One of the problems I find with the minimum corporation tax is that if a company loses money in year one, it is still going to pay tax. We have, in the past, allowed that loss to be carried forward to year two, so that in year two, even though on a two-year basis they might have broken even, the person is faced with the problem of not being able to carry that loss forward. In my view, if you lost money in a particular year, you would have to cut staff immediately. You just have to be merciless in how you would scale down your business. Do you have any statistics or have you tried to carry any statistics about the cyclical nature of your businesses and what effect it would have in terms of minimum corporate tax?

Mr Wightman: We do not have any cyclical statistics on that. I cannot help you there. I know currently you can carry losses forward for seven years and back three years. My concern with the alternative minimum tax is what they do. They will take taxable income or, say, a taxable loss, if you have, say, a \$50,000 taxable loss, and they add back certain items, such as that you cannot depreciate items, you cannot deduct certain expenses and so on. You may end up with a company paying tax on \$20,000 when it really lost \$50,000. It will kill businesses that are just starting out, because usually in the first two or three years, you have got losses. So I agree with you, but I do not have any cyclical statistics.

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Mr Villeneuve: Thank you both for your presentation. Your job has been made rather difficult, because in 1985 we did have a 10% tax advantage over businesses and residents in the province of Quebec.

Mr Wightman: Absolutely.

Mr Villeneuve: In the last six years, we have lost that advantage, and we are actually at a disadvantage vis-à-vis the province of Quebec. We have had an accountant come to another presentation in this city and advise us that if he were to advise a client, he would say if you have no ties to either province, you are by far more advantaged to go to the province of Quebec than the province of Ontario. I think the fact that you say \$4,000 of debt provincially per resident, the fruition of the projections, we now presently have \$4,000 carrying at the federal level per person, per resident of Ontario, I think the picture is very bleak. Could you comment to some degree on what you see happening with new businesses when they have a choice between going on the north side of the river or coming to Ottawa? That precludes the cross-border shopping, because we are in an area where we can go to New York, we can go to Quebec. So we are pretty vulnerable. Could you just comment on that?

Mr Wightman: In my non-volunteer life as a partner with Peat Marwick Thorne, people come to us, and they are going to start a business. If they are indifferent, there is absolutely no question about it, you are better off, from an income tax point of view, to reside in Quebec as opposed to Ontario. The discrepancy is so great, now, that they will say, "I guess I'll go across the river." You are right dead on the money. There is no doubt. It is not only the \$4,000 per person over the next four years; it is currently you can save 7% on your tax rate between 23% and 16% on small-business earnings. You can save 14%, the difference between 44% and 30%, on your earnings over \$200,000. It does not make sense to do business in Ontario if you are indifferent. It just does not make sense.

Mr Villeneuve: I find it amazing—

The Vice-Chair: I am sorry, Mr Villeneuve, your time is up. Mr Jamison.

Mr Jamison: I have a couple of questions for you. The first one deals with the direction in transfer payments that the federal government made and how those transfer payments to municipalities where many of you do business and pay municipal taxes. What effect would there have been if those transfer payments had not been made and the federal freeze basically applied at the provincial-municipal level? Would that have increased the cost of doing business for many of your members?

Mr Wightman: With the provincial payments to the municipalities being reduced, the overall result is that the mill rate has to increase at the municipal level, which means that businesses pay more municipal tax and individuals pay more tax. So our biggest concern in Ottawa is that our lot levies have gone way up, such that if you now want to develop a piece of land, the lot levies are going to kill you. The regional lot levy charges—school boards are now going to start putting on their own lot levies, such that it does not make sense to construct buildings. If you are not putting up houses, it means you are not employing people to build them, you are not selling as many refrigerators and stoves and so on. It has an incredible effect.

We do not see it so much in municipal tax rates going up, because they have kept a handle on them fairly well within the city of Ottawa. I think the federal government has to get its own house in order, and they are doing their best to do it. It affects us, but people are not really crying too much at the business level on transfer payments, probably because it has not had enough press.

Mr Jamison: To go on from that, we have decided as a government to fight the recession. By doing that, anti-recession programs that affect small business and small construction people and so forth I believe have had their effects. You mentioned the GST and combining the GST with the PST. Our government, by not so combining, effectively left \$470 million this year in the pockets of consumers, which again in the tax coalition situation, leaves moneys in the pockets of the consumers who again affect your business or many of the businesses of the people you represent. Beyond that, I understand what you are saying about cutting. The problem that I guess a few presenters previous to this have indicated is that is a fine approach, but in the end result whose ox gets gored? We were headed for an \$8-billion deficit by standing pat in this province. You are talking about debt load and a lesser deficit. What is your indication there?

Mr Wightman: There are a couple of things. First is if the provincial sales tax was harmonized with GST and we kept the same rate, another \$470 million would have been collected, which is the \$470 million you referred to. We could have made it dead even by reducing the rate somewhat; instead of 8% GST it could have been 7%, which would have been a break-even from a revenue point of view, except you would have saved an awful lot of money, because that whole team of sales tax collectors would basically have been eliminated. You could have disseminated them throughout the rest of the government. So I am still very much in favour of a GST as opposed to a provincial sales tax.

What was your other point?

The Chair: I am sorry, we have run out of time. Mr Kwinter.

Mr Kwinter: Mr Wightman, we had a presentation this morning and we have had several during the course of these hearings. The thrust of their argument is that business is getting a free ride, they are not paying enough taxes, that there are too many, as they call them, corporate welfare bums. What is your reaction to that as a member of the board of trade, as a professional in the field? How do you respond to that?

Mr Wightman: There is no doubt in my mind they just do not know what they are talking about. They do not understand the tax system; they do not understand how corporations pay tax. I think if you went to them with this simple page 2 that said a corporation pays tax at 40% of its income—a corporation is not a person, it is just a corporation. It then distributes the money out to individuals. Individuals pay tax at an additional 25% to 35% in the dividends. They want to tax it more. I just cannot comprehend that. It just does not make any sense to me to come up with that conclusion. Perhaps through the press or

whatever they have the misconception that corporations do not pay enough tax, but believe me, it is a misconception. I do not know what else to say.

Mr Sterling: I think it was pointed out the number of taxes that corporations have put in. Has there been a great cost in terms of dealing with the various labour legislation—Bill 70 that we have recently talked about in the Legislature which basically the government gutted after it was attacked by the opposition and by business.

Mr B. Ward: Come on, Norm.

Mr Sterling: Well, it is true. I mean, the whole bill is gone.

Mr Wightman: I think I know what you are getting at. Is that the legislation which would have made directors personally liable?

Mr Villeneuve: Yes.

Mr Sterling: No, directors are liable now and still will be, but it was managers and going down below the board—

Mr Villeneuve: And charitable corporations.

Mr Sterling: —and making many of the people who work for the corporation as well. The employment equity and the equal pay for work of equal value, has that had any impact on the cost of doing business?

Mr Wightman: The biggest concern we have with the labour legislation is that it scared off a lot of people who might have thought of coming to Ontario. They said, “Geez, if the Ontario government is looking at making people personally liable for that sort of thing, who are managers up to directors”—it scared a lot of people off, so it did have that effect.

On the pay equity legislation, we do not totally disagree with that because there are some real problems out there. However, we are a little concerned that if it gets out of hand we are just going to have one big provincial union that is controlled by someone in Toronto who does not necessarily understand the economics of a particular situation. That is a concern, yes.

The committee recessed at 1140.

AFTERNOON SITTING

The committee resumed at 1319.

OTTAWA-CARLETON DAY CARE ASSOCIATION

The Chair: I would like to welcome you before this committee. For the purpose of Hansard, could you state your name and the association you are representing at this hearing.

Ms Blenkiron: My name is Diane Blenkiron. I am the president of the Ottawa-Carleton Day Care Association. This is a group of not-for-profit child care programs, approximately 43 of them, including family home day care, group care, all licensed. We tried to get on the agenda and could not, so I am rather thrilled that I am able to come today. I think you have probably heard some of the comments that I wanted to make through some of the other day care groups that have been presenting, but we really felt it was necessary to get an Ottawa perspective. I do not know that it is different from across the province, but our needs are quite great here.

First, I would like to preface my remarks by saying that we were really pleased—I have got to get my thoughts together—that Mr Rae had said that the recession was not going to be carried on the backs of the poor in Ontario. So many of the poor, as so many of our citizens in Ontario, do have children, and one of the greatest things that we have been finding in this community and in others is that parents want to break out of a poverty cycle or they want to improve their status or a woman has an opportunity to go to work, or both parents do, or to go back to school, but because of the long waiting lists in day care, they are unable to.

The NDP government, with its expansion basis of 5,000, attempted to redress this somewhat. It had promised us 10,000 spaces and 10,000 more every year, and we were hoping and we are still hopeful that this government and the people of Ontario will stop looking at child care solely as a support system for people working and for people going to school, but as an entity unto itself, because what we find with child care is that if we think of it only as a social service and we do not think of it as providing for the children's developmental needs as well, what happens is that people begin to use other services, and that is what is happening across the province at the present time.

With these 5,000 expansion spaces, the expectation, I believe, of the government was that the municipalities would pick up these spaces happily and that there would be 5,000 more people able to use them. I understand that is not the case, because with the tax base being property and with municipalities' mill rates going up, they have not wanted to take these spaces, because they still would need to pay the remaining 20%. As you may or may not know, with the Canada assistance plan sharing formula, the federal government pays 50%, the province 30% and the local municipality 20%. In this community of Ottawa-Carleton, we were very fortunate that our councillors did see child care as a priority and so they did apply for those spaces. We do not see that happening across the province.

We would really like to see a turnabout in child care so that it was not just thought of, as I say, as a social service,

and one that is dependent upon whether or not there is welfare money left over. We really feel that when you look at education, when you look at people's futures and you look at children's futures, unless we can provide a good basis for those children in the early years, then we are going to be defeating what happens in the later years.

Basically what I am saying to you is that we really feel the government has made beginnings with this. We do realize their intentions are to have an accessible, affordable system.

My feeling, as president of Ottawa-Carleton Day Care Association, and the members of our group, is that for it to be an accessible system, we need to be working towards a universal system. We really cannot say we have to wait until we have dollars. It is a philosophy statement first. We need to believe that first there is the system, then we have to figure out how we are going to pay for the system. As someone said at a national conference we had in Prince Edward Island in July, they were able to find money for the war within three days; why can we not find money for children?

I have not followed any of my notes. I have a tendency to get carried away, but children are our priority and children are our future. We do believe as a community that this budget is really important. We would really hate to see that people would suffer. To me and to us, it is a beginning of a movement towards a child care system. There has been talk; there has not been too much action. We would like to see some action implemented as well. I think I will stop there.

Mr Sutherland: I was just wondering if you could give us a little clearer picture of the day care situation here in Ottawa. You mentioned that the city council or the regional council felt it was a priority. Give us some sense of maybe where waiting lists are for day care in general, subsidized spaces. Could you go into that a little more?

Ms Blenkiron: For the last five years, we have been applying for so many day care spaces and not being able to get our complement when we have applied for them. This year, we had applied for 1,000 spaces for Ottawa-Carleton and we received I believe 500 spaces. We have applied for the additional 500 spaces, but we have not received them at the present time.

We do not have a centralized waiting list as they have in the Toronto area. There is a reason for that. Our feeling is that parents need to have choice, and the feeling was that if you have a centralized waiting list, that does something to the choice that the parent can have.

We have, though, a method of measuring what the need is. We believe it is around about 4,000 to 5,000. The reason we know that is that each day care centre of course has its own waiting list, and I am a director of a day care as well and we have a waiting list, but we have an agency called Child Care Information in Ottawa which maintains statistics of calls that come in for people looking for child care.

The biggest group of course that they are looking for is the infant-toddler area, and I have so many people really upset on the other end of the line because they are not able to find this care. What I am finding happening in this

community, and I am sure it is happening in others but I am finding it right across the board, especially in the infant-toddler area, is that people are looking to the informal sector more. I do not think this is all bad, but I do think people need to have choice, and the situation in Ottawa right now is that there is no choice in the infant-toddler area.

We have about—I am using approximate figures—12 infant centres in the city and each one of those has about 10 spaces in them. If you can imagine, if I have a waiting list, which I do, of 150 people on my infant list, there is no way. I am going to be able to accommodate 10 of those people. What is going to happen to the other 90?

What I am finding is happening is that they are using the informal sector, and in many cases that is fine, but in many more cases it is not fine, because—and I have said this in my brief and you will get a copy of it tomorrow—I really think what is happening in Ontario is that people are thinking of child care as a cottage industry. If you remember England and how they manufactured goods and how people were able to have a factory in their own home, we are using children as goods.

Mr Villeneuve: As chair of the Ottawa-Carleton Day Care Association, I am sure you have run across a number of situations. When you say “the informal sector,” you are speaking of private day care?

Ms Blenkiron: I am talking about unlicensed private day care.

Mr Villeneuve: Could you give us an idea as to the fee structure of your particular association? Do you have a rigid fee structure? Just give us an idea.

Ms Blenkiron: Every day care in the city, and I think this is why we need an overhaul of the child care system, has its own fees, depending upon what its budget is. In my particular day care centre, our fees are \$915 a month for an infant, \$630 a month for a toddler and \$535 for a preschooler.

I do not know what they sound like to you. In this community, they sound low. The majority of fees in this community are over \$1,000 for an infant, probably around \$800 for a toddler and somewhere around \$550 for a preschooler.

The only reason I am able to do that is that I happen to work for an organization which is subsidizing my rent and we are not having to pay rent. Our salaries are not wonderful. We were waiting for—we were hoping—the pay equity adjustment which still has not come through. But that is what is happening; 80% of our incomes goes to salaries.

The Chair: I would like to thank you for your presentation before this committee. I am glad we were able to accommodate you.

1330

CANADIAN COUNCIL ON CHILDREN AND YOUTH

The Chair: The next group to make a representation before the committee is the Canadian Council on Children and Youth. Welcome. You will be allowed up to one half-hour. After your brief, try to leave some time for questions and answers from the three parties on the committee. For the purposes of Hansard, please identify yourself and your position.

Dr Walker: My name is Dr Robin Walker. I am the president of the Canadian Council on Children and Youth. Mrs Landon Pearson is our past president and chairperson. Murielle O'Hara is a member of the staff of the council.

We are not bringing any written materials to you today. We wanted to make some general comments about the direction of the Ontario budget and we also wanted to make some suggestions for the direction the government might consider taking in relation to children in the future.

The first thing I should say to you is a little explanation as to why we should be here in the first place. The Canadian Council on Children and Youth is a national organization. It is a national, non-governmental, voluntary organization committed to research and analysis of policies that affect children throughout Canada and to educating governments, public, corporations, the whole population in ways which will develop policy to help children and to accommodate their needs.

The reason why we are here is that we see the Ontario budget as being of great importance not just to the province but also to the whole country. It quite clearly sets a different direction from all the other provincial budgets and from the federal budget. It quite clearly is based on a different philosophy towards dealing with a recession and dealing with social problems. As such, it may at some point serve as a model for other provincial governments. We felt that as such it has national significance which requires us to make a response to it.

What we are going to do, therefore, is I will start with some general comments and then Mrs Pearson will speak a little bit to our philosophy towards helping children and what we see as being the directions the government might wish to take in the future.

I should mention to you, just as background, that professionally I am a physician. I work in paediatrics. I have recently moved from Queen's University to the University of Ottawa where I work out of the Children's Hospital of Eastern Ontario in the field of neonatology; that is, newborn babies. As such, my contacts are predominantly with the children of poor families, of socially disadvantaged families, of families which are disadvantaged socially, economically, culturally, politically. The reason for that is that a very significant proportion of small and premature babies are born to such families. Those are the patients I care for. I think that knowing that background may be helpful to you.

Let me just look at what this budget has done and give you the pluses and minuses. Those of you who are government members will be delighted to hear that my analysis will be much more favourable than the Fraser Institute's, but then we do come from rather different backgrounds, I guess.

What did the budget try to do? It tried to maintain a lower tax burden on low-income families. That merits a checkmark from me. It is of great importance to children because the proportion of our poor who are children is very high. Although Ontario is a little better than the national average in this respect, we are still talking about one in six of our children who are in families below the poverty line. If you are talking about under-six-year-olds, it is one in five. That record is the third worst in the industrialized

world, according to the Senate committee on social policy and is not a record of which we can be very proud.

What else did it do? The budget put some money into housing, particularly into affordable housing. One of the crucial aspects of development of children is the kind of housing they are in during their early years. Again, a checkmark for that.

Another checkmark for the work on social assistance reform. We were very disappointed when the previous government put this on hold. We are very pleased, even though it is a fairly modest beginning, that the process seems to be under way again. This is of vital importance to children. Children in families on social assistance are particularly disadvantaged. Some very good Ontario work from Dan Offord at McMaster University has shown the extent to which welfare children are disadvantaged, even compared with other poor children.

There is a continuation of investment in services such as the health system, which is important because many other provinces have chosen to cut back and those cutbacks have often impacted negatively on children; for example, the Newfoundland budget which withdrew coverage for some services for children. There has been an attempt to address some special-needs populations. I think of particular merit are the attempts to address the needs of some aboriginal communities and some northern communities.

Finally, there has been an increase in funding for programs to help those who are the victims of violence, women and children. It is important to deal with violence against women because that impacts very directly on children as well as violence against children themselves.

We also note that this philosophy, this approach, has continued some earlier initiatives which are valuable in terms of investing in children; for example, the continuation of the Best Start initiative, which is directed towards prenatal prevention, the fact that there are at least no cuts to funding in child care and the direction towards things like training programs, literacy programs and so on, which at least have not been cut back, unlike, again, the situation in some other provinces.

These are all laudable, particularly in light of the federal government's capping of the Canada assistance plan and the decrease in transfer payments, which are obviously going to impact particularly importantly on the Ontario fiscal situation.

What more needs to be done then? You have already a report, by a group which included among its members a member of cabinet, called Children First. This is a very important report which deals with an approach to many of the needs of children throughout the province. It recommends a co-ordinated multiministerial approach, which is something which has not been the case either in this province or indeed in any other. It recommends some kind of responsibility centre to deal with the issues that affect children.

It is notable that the federal government has in fact already created such a centre in the form of the children's bureau within the Department of National Health and Welfare. While it remains to be seen how effective that bureau will be, they do at least deserve our congratulations for creating such a responsibility centre for children. There is

a need for a similar responsibility centre within the Ontario governmental system.

We see other special-needs communities whose needs have not yet been adequately addressed. While we applaud the direction towards aboriginal peoples in Ontario, which is of enormous importance in this province, as well as towards northern communities, there are other very high-need communities who deserve attention; for example, the multicultural communities of many of our major metropolitan centres, including this city.

We see a further need for attention, particularly at a time of recession, to issues of youth employment, which, other than in the form of training programs, which are laudable, do not yet seem to have received sufficient attention. But quite frankly, an awful lot of what needs to be done is in the Children First report. If the government commits itself to implementation of that report, it will have done an enormous amount of what we are looking for for children.

Where we come from is basically the need for us to recognize that the kind of society we have in the future really depends on how we deal with our children and youth today. If we want to avoid the kind of disaffected young society we see south of the border, if we want to avoid criminalization of our young people, if we want to avoid the handicaps that come from being born too small because of social and economic deprivation, then we have to be willing to invest in programs towards children now, because what we do now in terms of investing in children and in programs towards children, particularly towards disadvantaged children, directly impacts on the kind of society we have down the road. Quite frankly, if that requires the continuation of a modest deficit at this point in history, it will save us many times that kind of money 15 or 20 years down the road.

Mrs Pearson has long and very wide experience of many areas that relate to investment in early childhood development and she is going to continue talking along those lines.

Mrs Pearson: I will do as Robin did and give you a bit of indication of where I come from. I have been interested in issues to do with children for many years. I was the vice-chairman of the Canadian Commission for the International Year of the Child, I have been working with the council for a long time, I was a leader in setting up a coalition on the rights of children, which is a national coalition to promote the convention, and I initiated and have been working for many years with the primary prevention project in the Ottawa school board.

1340

I would like to speak just briefly about the convention, because that is another question. Ontario is not creating any problems with respect to the ratification, but I think it is very important for you all to understand the value of this particular convention, the UN convention on the rights of the child, which was adopted by the United Nations in November 1989 and which was entered into force in September of last year after the requisite 20 countries had ratified. Canada has signed, as you know, and has not yet ratified because we are waiting for all the provinces to send in their letters saying they reviewed legislation and

have seen that it conforms or have changed the legislation, as has been the case in a couple of provinces.

The importance of this convention is that it puts the child first. It says the child is a person. I think that like the movement that has preceded this, the movement on equity for women, it started with the recognition of women as persons, as legal persons at the early years of this century. Recognizing children as persons has come later and I think it is very important that we all begin to think about what that means to us, both as individuals and as decision-makers. It means that as you are looking at some of the policies that you promote financially and fiscally, there sometimes need to be decisions as to whether or not this one benefits the child first or another portion of the population. Because the child does not vote, the temptation is sometimes to benefit another part of the population. This has been my experience over many years, which is how to get the voice of children heard at the political level.

Because of my experience as a child educational psychologist and with a background in child development, I feel that increasingly, just as Robin has said, the investment of money into children is one which probably has the greatest return of almost all the investments any government can make and the knowledge that is required to know how to make that investment is the kind of thing I hope your government is prepared to take a good look at.

Another one of my hats is I am the vice-president of the Child, Youth and Family Policy Research Centre, which is located in Toronto. It is partly funded by the Ministry of Community and Social Services and has been supported by the present government because there is the understanding that policies to affect children are not always easy. It is not always easy to know what is the best thing, just as many of us bringing up our own children have found it difficult to know sometimes what is the best thing. It is usually not the easiest thing. One of the things that is terribly important is research and support of research on what kinds of policies work and what do not and what unintended effects may occur when you implement a policy you think is going to benefit children and, somewhat to your surprise, you find it does not.

Just a brief issue on the question of equity: It is a very important policy for women, but some of the standards that have been set up to decide what is work of equal value have completely neglected what it is sometimes that women do best, so that in an incident I have been involved with, in work to do within a school system, not the teachers but non-affiliated staff, the fact that you work directly with children has absolutely no value in pay equity, so that certain types of workers who work directly with children find themselves equated with a computer analyst, which is not to say I do not admire computer analysts, but I feel the categories that have been used to establish pay equity are often negligent of the importance of children. It is just an example of the kind of thing I would like to put forward.

I will not say much more because, like Robin, I have been impressed with the direction of this budget and feel that at long last there is some real move being made on issues to do with children. But I would also like to underline the need I see for greater interministerial co-operation.

If you put the child first and work out from the child, you can bring groups together. When you start from the minister and work down to the child, a lot gets lost. If there are any questions, we are glad to hear.

Mr Villeneuve: Dr Walker, Mrs Pearson and Ms O'Hara, thank you for your very interesting presentations. I have two short questions. Dr Walker, you referred to a modest deficit. In your opinion, what is a modest deficit?

Dr Walker: I think the best way to answer that is to use the same kinds of terms I would use in terms of a deficit in my own finances, which is something with which I am extremely familiar. The usual standard by which personal finances are judged is how much of your dollar is being spent on financing your debt. Under those terms, the current deficit of the Ontario government is significantly less punishing than the debt of the federal government or indeed the debts of certain other provincial governments in history. Although it is being painted as historically large and may be so for Ontario, it is still within the bounds of what has occurred in the past or in the present in terms of government spending. It depends on where you come from, whether you consider that modest or not. I appreciate that if you are in the business community, you have a different perspective than if you are dealing with poor families, for example. I think the point we are making is not so much the size of the deficit, but if you do not pay now you pay later, and if you do not pay now you pay later several times over. There are many examples of this.

The council has been involved in advocating for prenatal prevention programs. The Ontario government is funding community research programs in prenatal prevention called Best Start, which were aimed at developing the best models for prenatal prevention. Ultimately it may be for province-wide application, but right now these are specific projects that are being developed in different communities. We know that about \$1 spent prenatally results ultimately in a saving of about \$5.50 in subsequent services to handicapped children. That is a pretty good return. I think even a business person would probably think of that as a pretty decent return.

The council has also looked at the impact of early childhood programs on criminalization of youth—very similar figures. There are a number of studies and different models, the Perry preschool project in Boston, some Canadian models and some California models. They do different things, but each of them comes in with the same kind of return. A dollar spent in early childhood in prevention, in dealing with issues that relate to disadvantaged families, saves you about \$4.50 to \$5 in services down the road.

What we are saying is that if you do not pay now you pay later, so why not do it now. When you pay now you not only save money down the road but you also save families, you save children and lives. You create normal lives out of the debris of a disadvantaged situation. We see that as being an absolute social priority if we are going to maintain the relative advantage Canada still has socially over some of its neighbours.

Mr Villeneuve: Certainly Kingston's loss is CHEO's gain. As you can see, this tie was given to me by CHEO.

Dr Walker: I noticed it.

Mr Villeneuve: I am a very strong supporter, as is the entire constituency I represent and I am very proud of that. Just as a supplementary, is the doubling of the Ontario debt in four years a modest increase to you?

Dr Walker: I think what you have to do is to look at what has been added into the debt that was not already in the debt before. A continuation of previous programs would have increased considerably the deficit anyway, just on the basis of the recession, decreased income from taxes and so on. What we are looking at here is not really a doubling of the deficit. What we are looking at is to what extent new policies and new programs have increased what would already have been a large deficit. The same thing has happened in other provinces. They may have cut services, but their deficits have still increased. The extent to which the deficit, as it would have been projected, has increased is quite modest, I believe. It is by no means a 100% increase.

Mr Villeneuve: Mrs Pearson, the right of the child is a very noble thing. Does that include the unborn child?

Mrs Pearson: The convention is aimed at children. The definition of "child" is every human being under the age of 18, and that is who it is aimed at.

1350

Mr Villeneuve: That is a very political answer.

Mrs Pearson: I am concerned about living children. I do not want to lose their rights.

Mr G. Wilson: My colleague asked my question too, so I will look for a short answer here partly because in my view the presentation by both of you has been excellent. You have certainly underlined the importance of making these investments now because of the costs later on. Robin, I have to agree with my colleague Noble Villeneuve about Kingston's loss, but I am hoping maybe you will have a little larger influence. I think some people here need some more help.

I would like to ask you, Mrs Pearson, what your feeling is from the work you have done, whether the importance of children's rights is gaining more recognition; and if it is not, what can be done to promote it in the community. My daughter was born in the Year of the Child, for instance, in 1979, but it is true that when I look back at that, it seems to have been lost in some way. There is not that same impetus that led to that naming.

Mrs Pearson: I think it is very interesting. I think there has been a slow shift just begun really to recognize the child as a person in ways that were not true in 1979. The convention would not have been adopted in 1979 because of this need for education. To me one of the important things about the convention is that there were so many different countries involved in it whose people are now in Ontario, so when you look at cultural differences you can say, "But your country, the country of your origin, has adopted or has ratified the convention." It is not just an imposition of values from the west on the rest of the world. It is the general world consensus that there is a new way of looking at children.

If you look at a child as a person, there are a whole lot of things you do not do to start with. You do not abuse a child if you look at a child as a person. You may, but that is another whole issue. The questions of treating a child as a possession or an object stop a lot of behaviour that becomes unthinkable when the child has a new perception. It also helps you to understand that every child is in some ways a citizen of our country, and therefore we all share in the responsibility for looking after that person just as we do in looking after our handicapped or other portions of the population. It helps to spread the sense of general responsibility. I think that is slowly beginning to happen. There is a long way to go in understanding this.

I spent three years in the Soviet Union and wrote a book called *Children of Glasnost*. You can imagine what last week was like for me. In a sense I was seeing, with the children I was writing about, that there was the beginning of this being respected, that they were having a chance actually to make decisions for themselves and to look at the world in a different way. You can begin to see what that does and what emerges as a result of that. To me this is what is important about children's rights. It is not that the child has the right to do what he or she wants; that is not at all what I mean. It is that the child has the right to be respected. When you respect your children, you find in the end that they respect you and you have a wonderful time and when they turn out to be 37 they start looking after you.

Mr Sutherland: Thank you very much for coming today and again outlining the point I think we have been hearing in community after community, that while this budget has attempted to meet some of the needs by maintaining the level of services, there is still a lot more that needs to be done.

I want to focus my question to you, Dr Walker. You made some reference in your comments in terms of the work you do. I take it many of the children you see are premature children who come from low-income families and that type of thing. Can you give us some idea of what some of the other common characteristics are? Are these generally people with lower levels of education? Is it nutritional problems that are causing some of these prematures? If you can just elaborate a bit more.

Dr Walker: It is actually very complex, as you can imagine. I should stress that not all premature and not all low-birth-weight babies are born to disadvantaged families. I have had two myself, so there is a wide mix, nevertheless there is a high proportion. My guesstimate is that at any time in our neonatal intensive care unit, up to one half of those babies may be the products of disadvantaged families. That is obviously a very high proportion.

The factors are complex. Some of them are environmental, some are cultural, some are economic and some purely social. There is no doubt that single individual factors like nutrition may sometimes be significant. Some of the most interesting work in Canada has been done by the Montreal Diet Dispensary which, while it has not only dealt with nutritional issues, has certainly concentrated on those and shown that supplementing the diet of low-income families can make

a statistically significant difference to the incidence of at least low birth weight caused by undergrowth.

We also know there are other individual factors. Some are lifestyle factors, the use of a variety of substances. Tobacco is certainly the most widely used and the most significant in terms of size, but alcohol, and increasingly in recent years, cocaine, are also of considerable significance and very significant throughout this province.

We know other lifestyle factors, such as working history, exercise and so on, but there are many individual factors one can pull out. If you pull out all the individual definable factors, you are still left with a much higher proportion of low-birth-weight babies coming from socially and economically disadvantaged families. There are clearly factors which have a broader impact and which we probably do not understand very well.

What this means is that there are two approaches to prenatal prevention. The first is to look at the things we know and to try and deal with them, so you look at families where there is substance use, be it tobacco or others, and you try to deal with that. But we do not do any of that very well. For example, I have done a lot of work in Kingston and now in Ottawa with mothers and babies, mothers who abuse cocaine. There is almost nothing available to help a mother identified prenatally as a cocaine user get off the cocaine. Sure there are rehab programs available, but they are not geared towards this population, they are not geared towards pregnant women and they are not geared towards young, single, low-education women. There is often a deficit of programs for specific areas.

For the other part, prenatal prevention, you are never going to prevent all of it or even a large proportion of it without a much broader societal change. While initiatives such as Best Start are superb because they will direct attention towards the knowns, towards the things we can do now and the things we can do for disadvantaged populations—I should stress, by the way, that the Best Start proposals are all being drawn from disadvantaged communities. The Ottawa proposal, for example, looks at the Vanier east-end population which is significantly disadvantaged, not at the whole city at large, which may be less so—

The Chair: Dr Walker, I am sorry, I am going to have to cut you off, but for information purposes for this committee, when you are saying, "Pay now or pay later," maybe you have some papers or a short brief that you can send in to the clerk that could be distributed to this committee.

Dr Walker: Yes, I will do that.

The Chair: If I did not cut in, you could talk for another couple of hours on that particular subject.

Dr Walker: Without any difficulty at all.

The Chair: If you can send something to the clerk for a little background for this committee, I thank you for appearing before this committee with the information you brought forward.

OTTAWA AND DISTRICT LABOUR COUNCIL

The Chair: Next to appear is the Ottawa and District Labour Council. Welcome to the committee. You will have

up to one half-hour for your presentation and at the end try to leave some time in that half-hour for questions and answers on the three parties on the committee. You can take your coat off, sir; we are not going to grill you that much, but if you would not mind identifying yourself and your position for the purposes of Hansard, you may begin.

Mr Dale: If you will just give me a half a minute here to get organized and calm down a bit. I hope those of you who came up from Toronto hoping for some more temperate summer weather were not too disappointed. This is not the sort of thing you would like to do outdoors on a day like this.

Good afternoon. My name is Anthony Dale. I am the executive secretary of the Ottawa and District Labour Council. I am joined this afternoon by Clarence Dungey, who is a national representative of Canadian Union of Public Employees, Local 503, which represents employees of the city of Ottawa, the regional government, the humane society and that is about it. He has joined me this afternoon and he will be saying a couple of things later on, specifically about matters relating to children's aid and homes for the aged.

I thank the members of the standing committee on finance and economic affairs for inviting me here today to convey the views of the Ottawa and District Labour Council on the April 29 budget of the government of Ontario.

1400

Much attention has been focused on the increased deficit which is projected to result from this budget during the coming fiscal year and I understand that the deficit was a primary reason for these hearings being held today. I hope for those of you who demanded these hearings you are not terribly disappointed by the fact that a lot of people do not seem to be particularly upset by the deficit. The deficit is not the most interesting aspect of the budget. Indeed, its importance has been greatly exaggerated. What is much more interesting and much more exciting for progressive social forces in this province is the long-term vision which the budget expresses.

The Ontario government's vision of sustainable prosperity is one which is vital in order for Ontario to meet the challenges of the 1990s while expanding upon this province's proud tradition of providing some minimum of social and economic justice to all of its citizens. But since many people are concerned about the deficit, I think I will deal with that right up front. Very few people will discount the importance of the deficit issue. It is an issue which concerns those of us who like the Ontario government's budgetary approach as much as it concerns those who oppose that approach, because we recognize that it means that future revenues will flow to debt service charges rather than program or other spending. Where many people differ, however, and where some members of this committee will disagree with me today, is that they would favour cutting spending during the current recession in order to reduce future and present deficits.

Let me remind the committee of the findings of the 59 economists who spoke to you last month. They examined the government's projected spending and revenue and found that much of the projected deficit could be attributed

to increased reliance on social assistance due to job losses and changes in the unemployment insurance program and to decreased tax revenues which are to be expected in a recession and to reductions in transfer payments from the federal government.

These findings are supported by a *Globe and Mail* report last weekend that revealed that fully 10% of Ontario's population currently relies on social assistance payments. The fact that a great majority of these new cases are general welfare cases, meaning that they are employable people who have exhausted their UI claims, is indicative of the number of people in this province who have lost their jobs this past year.

The 59 economists also found that the federal government should shoulder a greater share of the blame for Ontario's projected deficit. The federal government is transferring 1.5 billion fewer dollars to Ontario this year than would have been the case if it had honoured its previous commitments. This comes at a time when the number of people on welfare is soaring, as I have mentioned before. Despite federal government policies such as the GST, such as high interest rates, such as free trade and others which have contributed to the rapid evisceration of Ontario's economy, in particular the manufacturing sector, the federal government itself is backing away from its obligation to help. In effect, the federal government is shifting its deficit to the province and the provincial government is feeling the heat.

We need to pay more attention to these factors as we examine the budget in order to keep the deficit issue in perspective. These factors are not lost on the ordinary working people of this province. When Bay Street brokers start demonstrating against the government and its budgetary deficit, the ordinary working people of this province are aware of the fact that blame must lie with the policies of the federal Conservative government. When the provincial opposition starts to protest about the deficit, the ordinary working people of this province remember that a balanced Liberal budget during last year's election campaign soon turned out to be a \$3-billion deficit in hiding.

I want to emphasize one more point about the deficit before I move on—and that is the familiar point that has been made, I am sure, in front of you in previous days and previous weeks—that the deficit, as a proportion of the province's wealth, is neither unmanageable nor unaffordable. Compared to the federal government, Ontario's deficit remains more than manageable. Canada spends 34 cents of every revenue dollar servicing its debt. Ontario currently spends 11.6 cents, and even if the ongoing recession makes this figure rise higher than the government's projection of 12.3 cents, we will still be dealing with a manageable figure.

We are confident that the government's long-term fiscal strategy is a sound one. We believe that the decision to borrow in order to fight the recession was a sound decision and we are confident that as the recession ends, the government will take appropriate steps to ensure that its deficit-reduction targets are met.

Moving away from the deficit issue for a few moments, I would like to draw the attention of the committee and its

observers to a few of the aspects of the budget which were especially welcomed by many of the people I represent today. Before doing that however, I would like to convey to you some of the experiences which I have been part of in the course of organizing and attending several events sponsored by the Ottawa and District Labour Council in recent months. These events provided members of our affiliated unions and members of community organizations with an opportunity to gather together and analyse the economic policies of the federal government.

On February 26 of this year at a labour-council-sponsored budget watch, a number of representatives of the unions and community groups watched Michael Wilson ignore the economic crisis in this country. He told us that day that he supported social services, at the same as he was limiting transfers of funds that would enable the provinces to supply those services. He told us that he had the interests of ordinary people in mind when he drafted the budget. At the same time, Wilson failed to restore adequate funding to the unemployment insurance program, a move which has forced an unprecedented number of people in Ontario and other provinces to rely on social assistance.

I remember particularly that day how absurd it was to hear Michael Wilson talk about how the medicare system was in sound hands under Tory control, and at the same time he was limiting the amount of money which was going to the provinces to provide that medicare. The logic there was that they were requiring the provinces to provide a service and yet they were not providing the funds to allow the provinces to provide those services.

Later this year at a job loss forum on May 2, a panel heard submissions from affiliated unions, from the social planning council of Ottawa-Carleton, from regional politicians and others which described the impact of the federal government's economic policies on them and the people they represent. An Ottawa Civic Hospital worker described how the members of his union faced layoffs because of the contracting out of work. Budgetary restrictions at the hospital had compelled the hospital to reduce costs, and those employees were the first to go.

The social planning council described that evening how children in the national capital region literally go hungry on a regular basis. Social assistance simply does not meet the needs of these many poor children.

A worker representing the people at federal employment centres described the frustration they feel when they are unable to help the unemployed because of cutbacks in the unemployment insurance program. These are the sorts of things we heard on that occasion and these are the experiences which affect the way in which the Ottawa and District Labour Council has analysed the Ontario government's first budget.

The labour council and its many social allies who have joined us in our political activities in recent years were pleased by, among other things, the decision not to piggy-back Ontario's sales tax on top of the federal GST, as other provinces have done. This avoided the imposition of \$470 million in new taxes on the people of Ontario. We were particularly pleased that the Ontario government did not

resort to the tempting prospect of reaping the rewards of this most regressive of taxes.

The allocation of \$215 million to get social assistance reform back on track is also a measure that was welcomed by many people. It is imperative that these reforms not be derailed by the current massive increase in the demand for social assistance.

The elimination of Ontario income tax for Ontarians with very low incomes and tax increases for those with very high incomes was another welcome move which makes the tax system more progressive. We were also pleased by the establishment of the Fair Tax Commission, which will provide the government with an opportunity to seek advice on new and innovative ways of meeting its revenue requirements. It must be particularly concerned to find new ways of making the tax system more progressive while being aware of the impact of taxation on the creation of social wealth.

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The allocation of \$175 million to an employee wage protection fund to protect the incomes of employees of bankrupt firms will provide important benefits to many of the workers who have been hit hardest by the current recession. Another positive measure was the allocation of \$100 million to provide funding to universities, hospitals, municipalities and school boards to pay for pay equity awards to an expanded number of Ontario women. This was an equally welcome move.

At this time I would like to call upon Mr Dungey, who is going to describe some of the other aspects of the budget which he would like to focus attention upon. I do not know if he is going to speak of them in completely glowing terms, but I will give him a few minutes to fill you in on a few of his views.

Mr Dungey: I have been involved in the municipal scene for about 36 years, so I have seen some changes and I have been on that roller-coaster many times.

We represent approximately 4,000 people who deal with the homes for the aged, the social services and all of those organizations that are embraced by municipalities. I just want to bring to your attention some of things that we faced last year, which was a devastating budget in the sense that the municipalities, for reasons on both sides of the fence, felt that they had to come down with a budget that was going to see, in a sense, the elimination of a lot of services.

Some of the comments and some of the complaints that they have are very interesting. I just want to read very briefly to you one of the comments made by Jacqueline Holzman, who is running for mayor, in response to the thought of eliminating a whole floor in a home for the aged: "We're going to have to do exactly what the CBC has done." That was her response to the reaction of the budget that they were dealing with, and laying much of the blame on the province. We spent a great deal of time reminding her that the existing government inherited the budget problems it was having.

Let me just give you one more illustration: "Garry Armstrong said major savings had to be found to rein in the region's extra spending on the homes, caused by

Ontario's cap on its subsidies. Ontario is supposed to pay 65% of the \$30 million in operating costs in 1990. In fact, it covered about 50%, and the region had to make up the \$4-million shortfall."

I just mention those two things because from a personal point of view, I have been involved in the municipalities across this province and across this country for many years and have always been concerned about the formulas. When you look at 30 and 70, when you look at 60 and 40 and so on and so forth, when you look at the problems that are facing the children's aid societies and the municipalities with the homes for the aged, these are the kinds of things that we are concerned about as well. Indeed as we look at the formulas and as we look at the budget, as you people are dealing with it and as we see it on an annual basis, we may well have to come back and say perhaps there are certain services that are now shared responsibilities; they may have to be incorporated into a provincial basis or a national basis.

We simply wanted an opportunity to say to you that the whole business of the deficit is one that cannot be reviewed or viewed as something we cannot live with, because if we do not continue with that fashion, if we continue with the kind of subsidization we are getting now, then all of those services are going to disappear.

Mr Dale: The specific aspects of the budget which we have talked about are important and were welcomed by a great many people in this province who are concerned with social and economic justice. But even more important than these specific measures was the basic theme which underlies the entire budget. This theme is the idea of having a new economic vision for Ontario which has been expressed by this government in its budget document and particularly in the budget document E.

This vision is one which has as its central concern the development of a sustainable prosperity, a prosperity which is concerned not only with the quantity of economic growth but also with the quality of that growth. This encompasses a concern with greater equity, which is demonstrated in the specific items which I referred to previously and also in a concern with one's coping with and leading the current process of economic restructuring which promises to produce radical changes in how our economy and our society operate.

Among the most important aspects to this commitment to sustainable prosperity is a commitment to ensuring that working people alone do not share the costs of economic restructuring. Policies which address the changing economic environment are predicated on ensuring that legal protections of workers' rights are not diminished in favour of greater efficiency or heightened competitiveness.

The Ontario government's assumption of the obligation to ensure that the rights of working people are protected before any program of economic restructuring can be undertaken is an encouraging one. Working people, and more specifically organized labour, are on occasion accused of possessing a Luddite mentality with regard to economic change, the idea that we would resist any change because it is necessarily a bad thing.

This is a perception that exists in some quarters, that labour is an impediment to progress. This view must be rejected outright. The reason that perception exists is that too often working people are forced to bear a disproportionate share of the costs involved in economic restructuring. Those costs often include an abuse of labour laws and employment standards, rejection of health and safety protections and the closing of factories and other work sites without compensation to workers or their communities. This is an especially tragic consequence in single-industry towns and cities. Workers should not have to bear these costs alone.

We are encouraged that the Ontario government has decided to recognize the fact that successful economic change must be accompanied by a sincere commitment to protect those who are most susceptible to harm. The Ontario government's approach is one which will provide Ontario workers with the security which is necessary before our willing participation in economic restructuring can be possible.

In particular, one of the things which most impresses me about the budget is the government's willingness to promote the idea of social partnerships, the idea that government can lead business and labour together in a way which will result in more co-operation and a way which will result in less conflict, if possible, and one which will result in a greater sense of participation by all sectors of Ontario society. This is something that has been missing from governments for too long and one which is linked to an awful lot of the problems which we experience these days not only in Ontario but across the country.

This submission I have made today has been more accepting of our government's policies than is normal in Ontario labour circles. It is not often that we come out in favour of a lot of things that governments do. I could have been more critical of the budget for not doing enough of some things and for doing too much of some other things. For the moment, however, I will say to this committee explicitly that the blunt support of the Ontario government's budgetary approach is deliberate.

Since the budget's release, corporate interests which previously determined the political agenda in this province have been vocal in their denunciation of the deficit in particular. In my view, this protest does not damn the government's approach as much as it praises it. I am much more comfortable embracing the Ontario government's budget than I would be in embracing the budget of a government which was controlled by corporate interests.

Let's remember again what the 59 economists associated with the Canadian Centre for Policy Alternatives told you last month. Those who have criticized the budget deficit or who have called for a smaller deficit are calling for spending cuts. They have been silent, however, in one important regard, because they have not said what they want to see cut.

Those who have denounced the deficit so loudly ought to spend some time coming up with a list of the hospital beds that they would have closed and the health care workers whom they would have laid off. They should come up with a list of the college and university students who

would have been victims of enrolment cutbacks if education spending had been cut.

They should come up with a list of the programs and services that municipalities would have had to slash as a consequence of being denied increased transfers from the province. These are the unspoken consequences of the approach which critics of this budget demand. Thanks very much for your time this afternoon.

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Ms M. Ward: Thank you for your presentation. I would like you to comment a little more on the co-operative effort. Different groups have said—business groups have commented on it, that there has to be better co-operation between business and labour, and you have made some mention of it too. We also have had such comments from other labour councils. How far along do you think we are there? Is this still just an ideal or do you see such actions being taken by both sides? What can government do to help that out?

Mr Dale: I will be very frank in that area. I think that both business and labour have got some learning to do. Labour is not used to having a government which is as responsive to its concerns as the current government. At the same time, business has got some learning to do, because it is not used to having to share the corridors of power.

It has been suggested that, in particular, some of the central labour bodies in this province have a virtual veto over some aspects of legislative programs. If that is the case, then that is wrong, and I would not support that any more than I would support any particular business group, any board of trade, any chamber of commerce having a veto over legislation.

I think we really do have to move in the direction of social partnerships, as the budget outlines. This is an approach which has worked very well in some other countries and the experience of other countries is not necessarily directly transferable to the province of Ontario; I understand that. But we do have to move beyond constant conflict and constant damning of one sector by another. It is simply a counterproductive strategy.

We have to evolve social partnerships so that the major sectors of society, and particularly the major economic players, labour and business, have to be able to sit down and talk to each other and determine useful productive strategies for sustainable prosperity in this province.

Ms M. Ward: I do not recall right now what the percentage of organized labour is. About 30%? Am I anywhere close there?

Mr Dale: I think it is in the mid-30s nationally, possibly slightly higher in Ontario.

Ms M. Ward: Do you have any suggestions for the unorganized sector, how we could get things working there?

Mr Dale: I would like to make one comment and this is going to be a contentious issue in the future, I know. One of the things which is mandatory for this idea of social partnerships to work is that the proportion of workers in this province who are organized has got to increase. This is something that we are going to have to see in the upcoming reforms to the Labour Relations Act, and it is an appropriate

subject for this committee to look at, because it does have a direct impact on how this budget is going to work. If workers are not organized, their voices are not going to be heard adequately to counter the voices of other sectors. We have got to move towards an increased rate of unionization in this province so that those voices can be heard.

Mr Kwinter: Mr Dale, I just want to make a couple of observations. On page 3 you say, "The ordinary working people of this province remember that a balanced Liberal budget during last year's election campaign soon turned out to be a \$3-billion deficit in hiding." Do you have any understanding at all of how that deficit came about? Do you know that as a result of the final report on the budget, 1990-91, of which six months was in the hands of the NDP, the actual operating budget had a surplus of \$192 million? At the end of March 31, 1991, there was a surplus of \$192 million. There was a deficit in the capital fund of \$3,221,000,000, which wound up with a total deficit of \$3,029,000,000, which means that the government had every opportunity to control the capital fund.

It had nothing to do with operating, and it made a conscious decision to prepay some educational costs, to pay down the UTDC obligation and to write off the SkyDome. That was done by the government so it could offload that deficit onto the previous budget so it would not have to include it in this budget, because they were afraid of going over the \$10 billion. So you should know that, and that is in the Treasurer's report that just came out in July.

The other thing that I would like to comment on is that on the top of page 4 you make the common mistake that virtually every labour group that has come forward has made, and you say, "Compared to the federal government, Ontario's deficit remains more than manageable," which assumes that the federal government's debt is not manageable, but what you do not acknowledge is that we only have one taxpayer. The same taxpayer that has the unmanageable federal debt has what you consider to be the manageable provincial debt. That is the problem.

The 34 cents of every dollar is not someone else's dollar out there, it is your dollar and my dollar. When you add the 12 cents, that just compounds it and by the end of this government's term, by its own admission, it is going to double the debt, which means it is going to double what it costs to service the debt, and when you compound that with the federal debt and the provincial debt, it is going to be almost 50% of the total revenues that both governments receive in total is going to go to service the debt.

How do you respond to that? You cannot say the federal debt is out of hand and it is unmanageable but provincial debt is okay because it is only one third, but we only have the same taxpayer. The only time you can make a comparison is you can say that Prince Edward Island has got less of a debt, you can say Nova Scotia. That is a fair comparison, but you cannot compare it to the federal government.

The Chair: I am sorry, but your time has run out. Time is up.

Mr Dale: I do not get time to respond to that tirade? I thought the questions were supposed to leave space for answers. I do not think that is terribly fair.

The Chair: Yes, but it is among the three parties and it wound up that he spent three minutes on his preamble to the question.

Mr Dale: I understand that he has years of experience in the Ontario Legislature.

The Chair: Okay. I would like to thank you for—

Mr Dungey: For clarification, I take it he will be given an opportunity, if we want to add to this submission.

Mr Kwinter: Absolutely.

The Chair: I would like to thank you for appearing.

Mr Dale: How time flies when you are having fun.

ASSOCIATION OF ONTARIO HEALTH CENTRES

The Chair: The next group to appear is the Association of Ontario Health Centres. I would like to welcome you here to the standing committee on finance and economic affairs and the budget review. You will have 15 minutes for your presentation. It works the same as the other group that was just in here. At the end of your presentation the time will be split equally among the three parties. If you would identify yourself for the purpose of Hansard, you may begin your presentation.

Ms Muckle: I am Wendy Muckle. I work at Sandy Hill Community Health Centre here in Ottawa and I am here to represent the Association of Ontario Health Centres.

The Association of Ontario Health Centres represents over 55 member centres funded through the Ontario Ministry of Health. Whether community, physician or university sponsored, these health centres are throughout Ontario, representing rural and urban areas, ethnic communities and people of all socio-economic levels. The thrust of the member centres is to improve the health of the communities they serve and work with through a range of appropriate services and approaches.

The approach to health supported by the association and its members is reflected in a number of government documents published by all three political parties, Conservatives, Liberals and New Democrats, both at the federal and provincial levels.

For example, under the federal Conservative Minister of Health, Jake Epp, the report *Achieving Health for All* identified three major health challenges: Disadvantaged groups have significantly lower life expectancy, poorer health and a higher prevalence of disability than the average Canadian; various forms of preventable diseases and injuries continue to undermine the health and quality of life of many Canadians; and many suffer from chronic disease, disability, or various forms of emotional stress and lack of community support to help them cope and live meaningful, productive and dignified lives.

In the province of Ontario, the Premier's Council on Health, under the Liberal government, produced *A Vision for Health: Health Goals for Ontario*. The goals stressed: health promotion and disease prevention; strong and supportive families and communities; a safe, high-quality

physical environment; and an increased number of years of good health.

It is clear from documents such as these that poverty, unemployment, family violence, inadequate housing and lack of community supports cause ill health and prevent people from contributing fully to society. All levels of government must respond accordingly and, thus, in complement to these two well-known and well-supported documents from two of our major political parties. The third, the New Democrats, brought down in Ontario a spring 1991 budget which sought to actually implement and operationalize these concepts and goals.

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The provincial budget has attempted to respond to many of the factors which impact on health status. To do otherwise would be to ignore the understanding all of us have as to what contributes to a healthy and dignified life and what people need in order to participate in life. We have an example in the United States, where a national priority to reduce the deficit at the expense of a wide range of human services has accomplished, in fact, the largest deficit in that country's history, with more than one third of their children growing up below the poverty line and more people with no health insurance than there are people in Canada. Let us not make their mistake.

A major concern to the association and its members is the effect of the federal legislation, Bill C-69, which limits transfer payments to the provinces. Thus, at the June 1991 annual general meeting of the Association of Ontario Health Centres, the following motion was approved:

"The association is fundamentally opposed to federal cuts to the Canada assistance plan and other cost shared arrangements and will formally advise the federal government of this fact and urge them to restore a commitment to full cost-sharing and will request all member centres to commit themselves to oppose Bill C-69 and other federal, provincial and municipal legislation which adversely impact on health and to commit themselves to develop educational strategies with their communities to promote understanding of and action on Bill C-69 and related social policy issues."

With regard to this, we would like to remind the committee that much of the budget and its deficit is a direct result of cuts in transfer payments to Ontario by the federal government. In addition, federal decisions to change criteria around eligibility criteria for unemployment insurance have directly led to higher welfare case loads in Ontario municipalities. The financial cost of this now rests increasingly with the regions and provinces, while the resulting health and social costs are being seen in our member centres now and will be felt by all of us in the long term.

We support and strive for healthy communities in Ontario, but our work in the health field must be complemented by employment strategies, housing options, adequate financial support for families to feed and clothe themselves, security from the trauma of unemployment or chronic illness and support services for us when we are in need. To this end, the federal government must reinstate its commitment to national health and social service standards and the provincial government must, especially in these

times of a recession, provide for the public good and the health of its citizens.

Mr Sutherland: Thank you very much for coming before us today and for your presentation—twofold, in terms of some support of the government in carrying out directions and guidelines and objectives that were developed by the previous government. If I read your presentation correctly, I think you were giving credit to all three parties here—that two previous governments had worked on it and then we were the ones who are attempting to carry it out.

You talked a little bit about health prevention. One of the earlier presenters, Dr Walker, was here talking about health prevention, neonatal. I was wondering if you could give this committee some sense of where you feel that is at. I think we heard in a couple of other communities some criticism that maybe not enough funds were specifically directed in the area of health prevention in some of the budgeting that did occur. I was wondering if you could comment on those two areas.

Ms Muckle: Can I just ask you to clarify? Do you want me to address my comments to disease prevention or to health promotion, or perhaps both?

Mr Sutherland: Talk both, and then in terms of direct money towards health prevention.

Ms Muckle: Disease prevention. I think everybody here is probably in support of good health. When we first got into a national health care system in the province of Ontario, we had a very strong belief that if we could give everybody access to hospital services and to physician care, all of us would be a lot healthier, that our communities would be healthy and that we would really have overcome some of the problems that we were facing. In fact, that just simply has not been the case.

We have an extremely good health care system in Ontario, but it is a system that is meant to stabilize us, to restore us to the status quo. It is not a system which takes us beyond that. It is not a system that makes our communities healthier places to work. It is not a system that makes our citizens more productive. What we are now realizing in health and where the thrust currently is in health is not simply in bringing people back to the status quo, not simply in preventing them from becoming ill, but also in addressing the things that happen within our lives and within our communities that make people ill. We know that no matter how good our health care system is, if we do not live in a safe community, if we do not have enough to eat, if we do not have the education we need to get a job and to support our families, we cannot possibly be healthy. Physical, emotional and spiritual illness is not just a result of a lack of health care; it is a result of living in communities that cannot support our needs. Does that answer your question?

The Chair: We will have to go on to Mr Sterling. Three minutes each.

Mr Sterling: We heard this argument about federal transfers a number of times. I have been in politics for a long time now, maybe too long, 14 years. I notice Norm Jamison agreeing with that statement. That is the first thing he has agreed with me on at these hearings, actually.

At any rate, the problem I have with the present arrangement between the federal government and the provinces is that back a long time ago they entered into an agreement and they said, "We will pay 50%," but they did not say 50% of what. In other words, it is like you and me writing a blank cheque to another person. I do not mind people expressing their concerns about health care services or whatever it is, but do you not think it is unfair that the federal government is required to write a blank cheque and have to go out and collect those taxes and allow another level of government to spend them, basically without any accountability? That is what the deal was. I have a great deal of difficulty with that. I think that if the provincial government spends the money, they should have to go out and tax for it, if that requires a transfer of taxing power from the feds to the provinces, which will probably occur during our present constitutional talk as well.

Now, the thrust of your presentation is to say that the federal government should not require that accountability.

Ms Muckle: I do not think in our presentation we have mentioned anything about accountability. As a taxpayer myself, I have a great deal of problem with any government spending money and not being accountable for how it is spent. I believe, though, that the federal government has in fact set forward some fairly stringent conditions under which it transfers the payments and that it does require the provinces to meet those standards in order for the transfer payments to continue. I guess the example of that is the Canada Health Act in 1984 and the fact that when the federal government felt the provinces were out of line in terms of how they were delivering the services, it did in fact re-enact legislation to enforce what it believed was the national will, which supported universality and the other conditions of the Canada Health Act.

Mr Sterling: But we have both governments operating at a deficit, so it does not matter to me as a taxpayer whether I pay to those guys or I pay to those guys, the federal government or the provincial government. It seems to me it would be more logical and more democratic and more accountable to say, "Look, the federal government shouldn't give you any money in an area where you are responsible for providing that service." If we are providing health care services here in Ontario and we are responsible for that system, we should tax for it. If we are providing a social welfare system, we should tax for it. Does that not seem logical to you?

Ms Muckle: I can agree with the logic, except that, of course, I bring my mind back to what happened before we had medicare and before we had CAP. Across the provinces of this country, there was certainly tremendous variation in what was available to people in terms of health care and social assistance. I believe that through the political process over a period of time, much of it before I was even born, it was sorted out that in fact Canadian citizens, not just Ontario residents, wished to have national standards for what kinds of assistance they would be willing to provide to individuals with regard to health care and social welfare payments and various types of human services, and that this responsibility was considered to be the federal

government's, to, in fact, develop national standards and to maintain them.

Mr Sterling: So you are saying you do not trust provincial politicians to make—

Ms Muckle: I guess I would say that I trust that in Ontario we will be able to continue to provide the high quality of services that we have in the past because we are a relatively rich province.

Mr Sterling: You are not trusting provinces to make the decisions—

1440

The Chair: Mr Sterling, time has run out. I allowed the presenter to give an answer to you there.

We would like to thank you for appearing before this committee with your presentation.

The committee recessed at 1441.

1500

UNITED STEELWORKERS, DISTRICT 6

The Chair: The next presenter is the United Steelworkers of America, and one of the presenters, Mr Michael Lewis. You will have one half-hour for your presentation. In that half-hour, you can leave some time at the end of your presentation for some questions and answers from the three political parties here. I would appreciate it if you could identify your partner there for the purposes of Hansard.

Mr Lewis: Certainly, I will do so. We are very glad to actually have made it here since our plane was cancelled and we barely made it on another airline flight. I knew this was going to be the highlight of your political experience, so I am glad we have not disappointed you and that we made it here.

On the statement you have, it says that this is being presented by the director of district six, Harry Hynd. You can tell, since I do not have a Scottish brogue, I am not Harry Hynd. He is involved in some very serious and heavy negotiations which went on most of the night, and asked me this morning if I would be so kind as to come up here. My name is Michael Lewis and I work out of the district office with Harry Hynd. On my left is John O'Grady, who is an economist and researcher for us and helped us put together the document you have before you. I do not intend to read that lengthy document word for word, I will leave that for you to do, but I do have a summary of it which follows more or less in the same order as the major document.

First, a little bit about District 6 of the Steelworkers. We represent approximately 70,000 working men and women in this province. The vast majority of our members are employed in the private sector, principally in primary steel production, secondary metal-related manufacturing and mining, but I would like to add that we are into various other sectors as well. We have nursing homes, hotels, security guards, hospitals, clothing manufacturers, legal aid clinics, printing companies, etc; sort of the whole gamut.

We appreciate the opportunity to present our views on the provincial budget. I have circulated copies of our written submission. As I said, I do not intend to go through it word for word.

The April 29 provincial budget was dominated by two major themes: The first of these was countering the recession; the second was continuing the process of framing a strategy to preserve a high-wage economy in this province. That process had begun under the Premier's Council established by the previous government. The members of District 6 looked to the budget for an indication of how the provincial government was going to counter the recession and how the government was going to move forward the social dialogue on economic restructuring.

I want to begin by reviewing the financial and economic situation faced by the Treasurer when he was preparing his first budget. I want to do that in order to set out clearly the real choices that were available to the government.

As members of this committee are aware, the construction and manufacturing sectors of the Ontario economy began to slow down in 1989. By 1990, the level of activity in those sectors was well past the slowdown stage and had moved into the contraction phase. As we moved into 1991, the recession had spread from the construction and manufacturing sectors into the business services and retail sectors of the economy. Virtually the entire private sector in Ontario was caught in the recession's grip.

While this recession may not prove to be as serious on a national level as the recession of 1981-82, it will probably prove to have been more severe for Ontario and certainly for Ontario's private sector, and boy, do we in steel know that. As we note on pages 10 and 11 of our brief, the loss of full-time jobs in Ontario is substantially greater in this recession than it was in 1982. Between 1981 and 1982, Ontario lost 124,000 full-time jobs; between 1990 and 1991, our province lost 291,000 full-time jobs. In provincial terms, this recession is far more serious than the 1981-82 recession.

Inevitably, a recession of that magnitude affects the financial position of the provincial government. The 1990 budget, the last budget tabled by the previous government, had forecast a modest surplus. By the fall of 1990, it was clear that those forecasts were no longer valid. By the spring of 1991, the deficit flowing from the previous fiscal year was estimated at \$3 billion.

On page 8 of our brief, we have set out a table summarizing our estimates of the real financial position faced by the Ontario government in the spring of this year.

1. The tax base and other revenues such as the Lottery Corp and the LCBO were clearly going to be affected by the recession. This revenue base would have had to increase by \$2.1 billion simply to keep pace with inflation. In fact, the revenue base was expected to be stagnant. In short, add another \$2.1 billion to the deficit of \$3 billion.

2. The Conservative caucus's friends in Ottawa did not ease these budget problems. Indeed, they compounded them. Had federal payments to Ontario merely kept pace with inflation, they would have increased to \$6.1 billion. Instead, they fell to \$5.3 billion. Add another \$800 million to the Ontario deficit, courtesy of Mr Harris's friends in Ottawa.

3. The federal Conservative changes to the unemployment insurance system have also affected the financial position of the Ontario government through their impact on social assistance obligations. Members of the committee

will recall that the two key changes made to the unemployment insurance system were to reduce the duration of benefits for a large number of workers and to tighten initial eligibility criteria. The effect of these changes is to significantly increase the number of unemployed unemployment insurance exhaustees and also to increase the number of unemployed workers who are unable to establish even initial unemployment insurance claims. The recession has added a further \$1 billion to provincial social assistance costs. That brings the deficit up to \$6.9 billion.

Finally, to that \$6.9 billion, we must then add debt carrying costs of another \$400 million, bringing the deficit to \$7.3 billion.

In short, a deficit of roughly \$7.3 billion was unavoidable. That deficit does not allow for any increase whatsoever to normal operating budgets or transfers to hospitals and local authorities. Even members of the Conservative caucus are likely to acknowledge that a policy of zero increases in operating costs, capital budgets and transfers to hospitals and local authorities is implausible. Had the provincial government followed the federal formula of 3% increases, the deficit would still have risen to \$8.7 billion.

The provincial government therefore faced four choices: to retrench to the core deficit of \$7.3 billion by carrying out a zero increase policy in operating budgets, capital expenditures and transfers to hospitals and local authorities; or to retrench to a lower deficit by cutting social assistance in the middle of a recession; or to retrench to an \$8.7-billion deficit by holding to a limit of 3% increases in operating and capital budgets and transfers to hospitals and local authorities; or to pursue a deliberate countercyclical policy of injecting new demand into the economy in order to arrest or retard the forces of recession.

The provincial Treasurer clearly decided to pursue the last of these options. We fully support this decision. For Ontario to have joined in the Conservative strategy of retrenching public sector spending during the recession would have both deepened and prolonged the recession.

I urge the members of this committee to recall the progress of the recession in the Ontario economy. The recession has moved through the economy like shock waves emanating from an epicentre. The recession originated in 1989 in the sectors most sensitive to high interest rates: housing, autos, furniture and appliances. By 1990, the momentum of the recession had spread to the building supply and basic steel industries, which were already under pressure from the high dollar. Until approximately the late summer of last year, the recession was largely confined to the construction industry and the manufacturing sector. In the last three months of 1990, the recession spread to the business services sector and then to the retail sector.

The question in the spring of 1991 was whether the recession should be allowed to move into the public sector. Had no corrective measures been taken, local authorities and hospitals would have been forced to administer serious cuts in their spending during this summer and fall. Because of the Ontario budget, those cuts will not have to take place and we can anticipate the forces of recession exhausting themselves by the end of this summer.

Approximately one worker in five is employed in the broader public sector. To have deliberately brought the full force of the recession into the public sector would have only given further impetus to the decline in aggregate demand. Public sector workers who are being laid off or who are fearful of layoff respond in the same way as private sector workers: they curtail their demand for housing, for furniture, for new appliances and for autos. A policy of retrenchment in Canada's largest province would have added significantly to the forces causing the economy to contract.

1510

Steelworkers support the Treasurer's decision to arrest the spread of this recession. Had he not done so, the recession would have grown more serious during this summer and into the autumn. I draw your attention to page 13 to, I am sure, a comment that you have heard before, made by James Frank, the vice-president and chief economist of the Conference Board of Canada—his statements supporting what we have just stated. As a result of Ontario's actions, we can now hope that the recession will have burnt itself out during the summer.

One of the points that are sometimes raised by critics of the budget is its impact on Ontario's debt rating. I draw your attention to page 17 of our submission. You will see there a table comparing the yield on Ontario Hydro bonds and federal government bonds. The bonds have comparable maturities and coupons. If the predictions of the bond rating agencies had been well founded, the spread between Ontario Hydro bonds and the federal government bonds should have widened after the provincial budget. In fact, the reverse was true. The prediction of the rating agencies appears not to have been borne out by actual events.

I want to turn now to the budget's second theme: building new social partnerships. The members of this committee are well aware of the forces of globalization and the new competition that Ontario's trade sector faces. Ontario cannot disengage from the international economy. To seek to restore the shelter of the 1960s and the 1970s is a futile strategy. We have no choice but to adapt to the new economic forces. We must ask ourselves: What will a high-wage economy look like in an era of globalized product and capital markets? Steelworkers agree with the Treasurer that a high-wage economy in the 1990s will look quite different from the high-wage economy of the previous 30 years.

We also agree with the Treasurer that to preserve a high-wage economy will require a substantial investment in skills by business, by society and by workers. We also agree that to carry out a substantial investment in skills will require us to establish new mechanisms at the level of the enterprise, at the level of the sector, and at the provincial level. Indeed, steelworkers have been in the forefront of building these new sectoral institutions in the steel industry, in the mining industry, and in the electrical and electronics industry.

We agree with the Treasurer that a significant feature of these new institutional mechanisms to deal with increased investment in skills will be new social partnerships involving business, labour, government and the community. The term "new social partnership" is not one over which we have apprehension.

We also agree with the Treasurer that if our manufacturing sector is to undergo a shift towards greater skill intensiveness, there will have to be changes in the way in which workers organize at the plant level.

And, finally, we agree with the Treasurer that economic renewal will entail transferring capital and labour out of some industries. We know that this will impose significant adjustment costs. We also believe that, in large measure, these adjustment costs must be assumed by society.

We want to stress to the Treasurer and to the members of this committee, the importance of the labour-management relations dimension in economic renewal. In the traded sector of our economy, upwards of 70% of non-office workers are unionized. There can be no solution to the problem of economic renewal in Ontario which does not incorporate workers and their organizations as full and equal partners. All too often, workers and their unions find themselves in a situation in which it is the new machine or the new technology that threatens economic security. That threat is real.

Members of this committee should review the Statistics Canada report that we referred to in our brief. The report documents Statistic Canada's findings and what happened to the roughly one million workers who were permanently laid off during the period 1981 to 1984: (1) After two years, only 57% of those one million workers had found permanent, full-time employment; (2) of those who found re-employment, 45% experienced a wage loss and the average reduction among the 45% who suffered a wage loss was 28%, excluding the effect of inflation; and (3) of those who were permanently laid off, only one worker in 20 reported receiving government-assisted retraining.

As long as the labour market functions in that manner, that is to say, as long as the cost of economic change is borne disproportionately by workers, our system of labour-management relations will not make the same contribution to economic renewal that has characterized northern Europe. You cannot have American labour relations laws and American managerial philosophies on the one hand and European labour-management relations on the other.

Workers and their unions both know that jobs are killed by the lack of investment, not by new investment. Workers and their unions also know that it is not the new machine or the new technology that threatens our prosperity; it is the old machine and the old technology. But workers and their unions also know that the terms of the existing unequal bargain in the labour market are that the costs of economic change will be borne disproportionately by working people. If there is to be a new partnership, then it cannot be on the unequal terms of the current labour market bargain.

For Steelworkers, economic renewal and a new partnership are part of a coherent whole. That whole includes: (1) labour law reform; (2) the adoption of active labour market policies to deal with adjustment and training; (3) a new deal on the management of pension funds; (4) a commitment to use worker ownership and labour-managed investment funds where these are appropriate; (5) new sectoral institutions involving labour and management; and (6) a commitment to dismantle outdated forms of work organization and move to a skill-intensive production model.

We in the Steelworkers read budget paper E as an invitation to join in a dialogue with business, government and the community over what a high-wage economy will look like in Ontario in the 1990s. We know that there are many in the labour movement, as well as in business, who are wary about discussing a new partnership. In our view, there is no alternative to such a dialogue. I want to affirm squarely our support for the Treasurer's budget and our support for the new partnerships which he and his government are seeking to establish. I thank you for your attention.

Mr Kwinter: I just want to question your methodology and your figures. On page 3 you use figures. I do not know where you got them, but they have no relationship to the real figures in the budget. The budget statement that I have that was issued by the Treasurer of Ontario and Minister of Economics for the first quarter shows in fact that the provincial sources of revenue from all sources is going to be \$43.56 billion, not \$37.7 billion.

Mr Sterling: You are including the federal transfers.

Mr Kwinter: No, no. I am just talking about their revenues. So that is not the figure.

The other thing that is quite interesting—I really take exception to your chart on page 8, because what you are really doing is you are sort of taking it both ways. The way the budget works is that at the end of every fiscal period, whatever the deficit is, it is transferred to the debt. It is taken off the books. You do not carry it forward and say: "Here's our core basic budget. We've got the \$3 billion from last year's deficit." That is gone. The only thing that you put in is the cost of carrying that, which you have done, so you have got it in there twice. You have got the cost of carrying the debt at \$0.4 billion—and by the way, the figure is not \$0.4 billion, it is \$685 million, so it is \$0.685 billion, not \$0.4 billion—and that \$3 billion is gone. It goes to the debt, and that is why that figure is in there where you are carrying the debt.

Something that I have noticed everybody has talked about is they said, "If we do nothing, here are the costs that we're going to have to incur." I do not think a government, any government, is elected to do nothing. What they had to do was to do something. They had to take a look at the costs and say, "We've got to do something."

I will give you an example. I have been calculating in the operating expenditures, and I know this is just a little item, but the executive offices, which are the Premier's office and the cabinet, have increased their expenditures by 90%. If you want to do something, you could start there. You could start in several other areas that are non—Everybody says: "What are you going to do? Are you going to cut the hospitals? Are you going to cut the welfare payments?" There is lots more to government than hospitals, welfare and education. There are lots of areas that they could have taken a look at and said: "Hey, we're in tough times. We're going to have to cut some stuff."

Everybody, particularly labour, comes on the assumption that: "If we do nothing, here's what we have. Zero-based, we still have all these costs." I think that is the fallacy. You have got to look at those things and say—it does not mean that you have to cut welfare, hospitals, schools, but there is

a myriad of other ministries in this government that, if they were cut back, the ministers might be unhappy, some of the people in the ministry might be unhappy, but the impact on the average Ontarian would be negligible.

1520

The Chair: You have one minute, Mr Kwinter.

Mr Kwinter: Those are areas that could have been addressed. It does not necessarily mean that the only ones you have to cut back on are social services. I would like to get your comment on that.

Mr Lewis: I think I will let our economist talk about the figures.

Mr O'Grady: The point I would like to take a different view on is the proper response of a provincial government when the economy is in recession and when the essential driving cause of that recession is demand efficiency. When your party was in power, the response of your Treasurer to those circumstances was to inject new public sector demand into the economy, and then as the economy recovered, he moved his budget back into balance. I am surprised that you have abandoned that view. I am surprised you do not see the comparison between the recession we are in right now and the same—rather not, because it was a less serious situation at that time, but the difficult situation the Ontario economy was in when the policy of your own Treasurer was to inject demand into the economy through deficits.

Mr Sterling: I would have liked an answer to Mr Kwinter's question. I have met with the president of Stelco and I am going to be meeting with the president of Dofasco in a very short period of time, along with the leader of my party. My understanding of the problem with the steel industry is that we are just not productive, we are not competitive with our American counterparts. How are we going to become more productive?

Mr O'Grady: Mr Sterling, I am surprised that you would have that impression of the Canadian steel industry. By North American standards, the Canadian steel industry is in fact one of the most productive, significantly more productive in terms of the standard measures of output by various classes per worker than is true of its American competitors. By international standards, it is in the upper tier but it is certainly not the most competitive steel industry on an international basis.

The central problem of the steel industry in this country is the macroeconomic policies that are being pursued by the federal government. The high dollar and the high interest rates are killing both the export market as well as the domestic demand for steel. If cars are not being made, then the demand for steel declines. If new construction has gone through the floor, then demand for structural steel clearly contracts. The problems of the steel industry in this country are rooted in the macroeconomic environment of this country, which are directly the consequence of the policies being pursued at the national level.

Mr Sterling: Your complaint about the high dollar is an admission that we are not productive.

Mr O'Grady: Not at all. If you look at the IMF data series and compare 1991 to basically 1975, and the IMF uses a category of analysis called the real exchange rate, the real exchange rate of the Canadian dollar on a weighted basis has increased by over 60% in that period of time. That is what is driving the problems of the steel industry.

Mr Christopherson: Michael, I want to thank you and the Steelworkers for an excellent presentation, excellent analysis, and very perceptive, I think. What I would like to ask you about is a report yesterday that came down by the Fraser Institute, an institute that the Premier is reported as having called a privately funded fat-cat economic institution, which gave this government a failing report card. I think one would characterize that as a business report card. I would appreciate your thoughts from a labour point of view on their report and on their comments.

Mr Lewis: I am going to let John. I have comments on that, but I am going to let him. It is juicy for him.

Mr O'Grady: One of the observations I would start with is that when I was in school, you used to get your report cards at the end of the term, not at the beginning of it.

One wonders what the Fraser Institute will say if the following scenario unfolds. Keep in mind that the premise, the objective, of the Treasurer in this budget was to arrest the forces of recession in Ontario and to bring about an earlier recovery in the Ontario economy so that Ontario would experience a faster rate of economic growth. If Ontario in fact leads the national economy out of recession, if Ontario in fact enjoys in the coming 18 to 24 months a higher rate of growth than other regions of this country, will the Fraser Institute revise the grade? Will it acknowledge that the Treasurer's strategy worked?

It is significant, it seems to me, that every single reputable macroeconomic model in this country has endorsed the Treasurer's strategy. You cannot find one that does not endorse it. That is what Jim Frank was saying. The Conference Board operates a macroeconomic model, and the conclusions of that model were crystal clear, categorical, and that is why he wrote what he did. The same is true with Informetrica—both in the private sector. Their conclusions are categorical that the Treasurer's strategy, on the basis of their models—

Mr Kwinter: Yes, but Frank is wrong 67.2% of the time.

The Chair: I am sorry, Mr Kwinter, you lost the floor a few minutes ago.

Mr Lewis: Where did you get that figure from?

Mr Kwinter: Right here. I will show it to you.

Mr B. Ward: I would like to ask you to get your comments on the last part of your brief on the need for new social partnerships. I know the Steelworkers union is very active in many communities throughout the province of Ontario.

Interjection.

Mr B. Ward: He is distracting the presenter there, Mr Chairman.

From the perception of steel, do you find there is a greater willingness among labour, business and government to work together? I guess Elliot Lake and Algoma Steel may be prime examples of communities with business, labour and government all coming together. Do you think that there is that co-operative effort beginning to develop? We are not there now. Do you think that we are starting along the road of building the trust that is necessary for us to be successful in the 1990s as a province?

Mr Lewis: In general terms, yes, I think it is beginning to happen, very much driven by the present government, obviously, in terms of Elliot Lake and Algoma. But even before that, as we mentioned in our brief, we have been involved in relationships like that, such as the Canadian Steel Trades Employment Congress, which is the steel industry organization that management and labour are involved in together and have been for a number of years and have done some very good things together. But yes, I think the basis has been set and there is a real future for this kind of relationship.

The Chair: Okay, Mr Lewis, I would like to thank you and your colleague on the presentation you have made before this committee. Maybe if you are available in the hall, Mr Kwinter can give you some additional paper there and clarify some points that he disagrees with. Thank you.

1530

ASSOCIATION OF COMMUNITY HEALTH, RESOURCE AND SERVICE CENTRES

The Chair: The next group to make a presentation to this committee is the Association of Community Health, Resource and Service Centres. Would you come forward, please? Do you have a colleague with you?

Ms Dowler: I am the colleague.

The Chair: You have one half-hour for your presentation, and I would like to welcome you here to the standing committee on finance and economic affairs on the budget review. If you would identify yourself for the purpose of Hansard and your position, you may begin your presentation.

Ms Dowler: My name is Judith Dowler. I am the president of the Association of Community Health, Resource and Service Centres board, which represents the boards of directors of 12 centres in Ottawa-Carleton: Carlington, Centretown, Cumberland, Gloucester, Kanata, Lowertown, Overbrook-Forbes, Pinecrest-Queensway, Sandy Hill, Somerset West, South East Ottawa and Vanier. These centres provide over \$18 million of programs in the area of health and social services to 12 different communities within Ottawa-Carleton.

I am one of 100 community volunteers who are members of the boards of directors of these centres. We are taxpayers, and the majority of us are home owners. We are spending our volunteer time in the community making it a better place to live. We would like our tax dollars working to provide support to our communities by providing financing for programs such as those provided by the centres, especially in social services and health services. That is my presentation.

I did have another colleague who was going to come, but she was ill, so I am finished. You have heard from some of the resource centres today, and you will be hearing from some more tomorrow individually, but I am just to make the presentation on behalf of the boards of directors.

Ms M. Ward: What types of services are you involved in at your resource centres?

Ms Dowler: We have a number of walk-in health clinics. We have a large women and violence program. We provide counselling services. There are employment programs to help people gain skills to go back into employment; homemaking. We also provide services at the centre such as space for things like a legal aid clinic. We co-locate workers from the Children's Aid Society of Ottawa-Carleton, Catholic Family Service of Ottawa-Carleton, the Family Service Centre of Ottawa-Carleton and a number of other agencies that are funded by the United Way or by the region to provide those kinds of services. We have our own staff but we also, as I say, have staff from centralized agencies that are located, decentralized, in the community.

Ms M. Ward: And you no doubt refer people to other services in the community.

Ms Dowler: Yes, we do.

Ms M. Ward: During the last presentation my colleague here was asking the presenter about a comment of the Fraser Institute. I was reading one of their publications recently, and there was an article in there about food banks. Basically, their argument was—in this article; I cannot say it is the opinion of the whole Fraser Institute—that food banks are an efficient form of food distribution and that we should not worry about it. I would like to get a comment from some people who see the needs of the community on that type of philosophy and what it would do to people out in the community if more of us subscribed to it.

Ms Dowler: I represent the Gloucester Centre for Community Resources. We have established as a spinoff of the centre because of so many requests for assistance with food, particularly at the end of the month, the Gloucester Food Cupboard. It stands apart from the centre now. I guess food banks started as an emergency service; that will not go away. We see that the need is growing and that the need is spreading throughout the community so that it is not just people who are on benefits but people who are unemployed or people who are the working poor and really a very broad range of people, and in particular people who never came before. I guess you have heard this before, but the same thing is happening in Ottawa that is happening in other cities.

Mr Sutherland: We had a question earlier with the provincial organization that was here about—sorry, I had better not say health prevention again—disease prevention in terms of preventing problems specifically. I was wondering if you can comment or elaborate a little more how you see that not only in the health aspect of the organizations but maybe in some of the other aspects of the organizations you represent.

Ms Dowler: We see that those work together, but very often in resource centres we have crisis intervention, and

that very often is trying to match people with the services they require. Prevention of disease or health promotion is somewhat long-term. I would suggest that we do have long-term programs that address that, but in our immediate crisis intervention we are dealing with trying to help people solve problems that are immediate like violence, hunger or lack of money. But there are long-term programs, particularly on the health side of the resource centres, that address that.

The Chair: Okay. I would like to thank you for your presentation before this committee.

The committee recessed at 1537.

1600

CENTRETOWN COALITION

The Chair: The next group I would like to welcome here is the Centretown Coalition. You have one half-hour for your presentation here. Could you identify yourselves and your position for the purpose of Hansard? I see you have a video there; I guess it is loud enough there so Hansard can pick up.

Ms Barton: My name is Debbie Barton and I am a member of the Centretown Coalition. I am a staff member at Centretown Citizens (Ottawa) Corp, which is a private non-profit housing corporation.

Just to give you a brief introduction of the coalition before Sandy Scott and Brenda Buckley speak, I will just introduce you to the coalition in terms of who we are. We represent a variety of service agencies located in the central core of Ottawa and we are dedicated to making our community, Centretown, a safe and healthy neighbourhood. Our main focus is on serving the needs of those people who have become marginalized in our community both socially and economically.

In keeping with our goals as an organization, we are generally pleased with the direction of the provincial budget in that it recognizes that in times of recession it is important to maintain that safety net. We are supportive of the goal of stimulating the economy. This demonstrates commitment by the government of public investment in its greatest resource, that of people and community.

By placing emphasis on creating a more skilled labour force through retraining and literacy programs, through improving the public infrastructure and establishing more jobs and through welfare reform, all of these items seek to improve the quality of life and develop healthier communities.

In this budget you as politicians have demonstrated that you have accepted the appropriate role of government—that is, being the guardians of the public wellbeing.

Mr Scott: My name is Sandy Scott and I am the staff associate at McLeod-Stewarton United Church, which is a United Church in the central core of Ottawa.

In our church we house the emergency food and clothing centre, which is an emergency food program sponsored by the Centretown Churches Social Action Committee, and we hand out enough food to feed up to 20,000 people a year. Here in fat city, central Ottawa, poverty is a very real thing. We have a day program there, a drop-in centre for

people who live on the street or very close to the street, and we see on an average of 65 people per day.

We are happy with the direction the government chose to take with this budget, but we are very concerned that there is not enough being spent at this time in the midst of a recession for those people who are particularly affected by the downturn in the economy. We support the fact that you are spending \$215 million to implement phase 1 welfare reform, but the total cost, the other \$240 million, has to be spent as well and it has to be spent, we think, immediately. There needs to be a commitment to spending that money and implementing phase 1 welfare reform as it was proposed in the Back on Track document.

We also support the phase 2 planning that is going on and we encourage you as a government to tell the public more explicitly what is going on around welfare reform, the committees that have been established, the dialogue that is going on. It is virtually unknown among the public what you are doing and the changes that might come in the future. If we are going to bring about changes, you as a government and we as a community working with you to bring about those much needed changes, we need to begin the public education now. While \$215 is a step in the right direction, it is not enough and we need to start moving very quickly around welfare reform.

We are happy that you are going to build 35,000 units this year. We hope you are able to do those social housing units and we encourage you to make further investments in social housing in the future. Most people who use an emergency food program use an emergency food program because they do not have adequate housing. I do not want to take any more time, or not very much more time, talking myself. Today, in our drop-in centre, we spoke with our clients and people who use our program and we asked them three questions: How has the provincial budget affected your life? How would you spend provincial funds if you could do that? What would you say to Mr Rae if he were here? On this seven-minute video are some of the answers our clients gave.

[Video presentation]

1614

Mr Scott: Generally many of our clients feel the way those people in the video feel. While they welcome the budget, they have not really felt the effect of it yet and they are still waiting to see what kinds of reforms are going to happen in the welfare system if we are going to move towards an social services system that integrates social services, health services, education, retraining and housing. We need a radical and extensive change to our system at present to help the folks we saw in the video today.

With me today is Brenda Buckley. Brenda Buckley is a client of our drop-in centre and has been very active in lobbying government since the publication of the Transitions report in 1987. She took part in the march to Toronto. I would like to turn it over to Brenda now.

Ms Buckley: Just to give a brief overview of where I am coming from, I am 22, I am on family benefits, I am a full-time student at Algonquin College and it is my second year in a course.

Over the last five years that I have been on assistance, I have seen improvements and I am glad I have seen them. One good thing I have to say about your government is it is the first I have seen come in that is people-oriented. We really needed that. But still there are the concerns of where your next meal is coming from or, if you have to move because of some problem with the apartment, where you are going to move to, will this person accept me because I am on welfare or FBA, how much is it going to be, am I going to have enough money? Just from my view, I look at it that I should not have to be worrying about where my meal is coming in, my rent and my bills. I want to be able to put all my energy towards finishing school so I can get off the system. That is really difficult to do right now.

With regard to one thing Ben, the last fellow who spoke on the video, was saying about programs coming out, I think a lot of people feel that once they are on welfare they are trapped within it because they do not have the educational background to go out and get a full-time job to support themselves. Going off it would be a worse benefit than staying on it, yet at the same time they want to get off it. These people do not want to be on welfare. They are looked down on, they are teased, they are made fun of. It is degrading for us. It is degrading for us to have to go to a food bank and say, "I need food." No one likes to do it, no one wants to do it.

There was one thing I was going to say and I cannot remember what it was now. Give me a second here. I cannot remember. If I do, I will let you know.

Ms Barton: I think that certainly those people who are in need whom we just heard from are the best people to be telling their stories. What I am bringing to you now is from the perspective of a housing provider in Centretown. We have been providing non-profit housing since 1974 in this community. Centretown Citizens presently has 800 housing units and we are developing 426 housing units by the end of next year, so certainly we have reaped some of the benefits of the present government.

I want to really point out to you that Centretown is a community that is under stress, like most downtown cities. Unfortunately, Ottawa tends to be perceived as being a place, as Sandy said, that is a fat-cat city. When you look at the data, the statistics about the city, because average income is used, it tends to get very skewed. There are a lot of people here who have very high incomes, but there are also a lot of people who have very low incomes. Unfortunately, those people get lost in those statistics.

The child poverty rate in Centretown is at 41%. The welfare rolls for Ottawa increased 25% in 1990 and they are expected to increase 40% this year. Centretown has more single parents—20%—than corresponding provincial and national figures. Provincially it is 16% and national figures are 13%. Some 70% of Centretown residents are tenants. Only 12% of the tenant households aged 20 to 44 could afford to buy a starter home last year, according to CMHC affordability measures. In December 1990 there were 4,235 households on the waiting list for social housing; that is, City Living and Ottawa Housing. Our housing waiting list is 800, so that is 800 additional. There has been a 75% growth in emergency shelter usage between 1985 and 1990.

1620

As of October 1990, the average rent in Centretown for a one-bedroom was \$528 and for a two-bedroom was \$742. People who are on assistance, either family benefits or general welfare, receive a maximum shelter benefit of \$350 for a single person and \$550 for a family of two. If you compare those figures in terms of what people who are on assistance are actually getting and what the average rents are in Centretown, there is a wide gap there.

Also, over the past few years, there has been a substantial loss of affordable housing in Centretown due to conversion. Where does that leave us? What can the province do? What future priority should you have? We are here to discuss a budget that has already been passed, but I would like to encourage you to look at what the future priorities for your government should be.

First and foremost, it is very obvious to us that the right to housing does not exist in this province, nor does it exist in Canada as a whole. With the further erosion of the federal role in housing there is even less opportunity to ensure that housing as a right is a priority of our Canadian government. So therefore, we would strongly encourage you, the province of Ontario, to take a lead role in lobbying the federal government to have the right to adequate housing entrenched in the Constitution. Canada has agreed internationally that housing is a right through our signing of the international covenant on economics, social and cultural rights. We have yet to guarantee such a right to our own Canadian citizens, so we need to secure the legal basis for claiming the right to housing and we encourage the province to take this up in its constitutional talks in the future.

Second, non-profits, like private developers, want to develop housing in the downtown core. Our organization is Centretown citizens. We came out of the community. We are a community-based organization, but we are finding we have had to go further afoot from Centretown because we can no longer afford to develop in downtown. For us to develop housing in downtown, we need the provincial government, through the Ministry of Housing, to take on a strong regulatory and advocacy role. Through the Planning Act, the province has at its disposal the mechanism to ensure that municipalities comply with the Housing First policy and the affordable housing requirements of all new development in municipalities.

Also, the province needs to take on more of an advocacy role with respect to the promotion of social housing within neighbourhoods. The government has been really successful in using the media to get its message across when it comes to drinking and driving, mental illness and multiculturalism through the use of various media ads on television and in print. We would strongly suggest that this same focus be used on social housing. It has been very effective in changing public attitudes and I think this approach is very important to us who are developers of social housing, because the not-in-my-backyard syndrome is very strong in our communities and we need your help in educating the community that everyone has the right to quality affordable housing. We believe that communities should be involved in the planning of social housing, since they are the community themselves, so we are not against

involving the community. Since we as an organization, CCOC, are community-based, we always involve the people who live there in the planning process and in design and such.

Environmental concerns and land use dictate a better use of existing serviced land and this equals intensification. Our recent regional housing statement identifies—that is our locally based regional housing statement—low-density development in urban centres outside our green belt as occupying 25% of the urban land in the region and it is the largest single use of land. We find this is not a very good use of land at all when we need to intensify development. Land is just too sacred. So the province, through the Planning Act, has to ensure that municipalities have intensification as a priority in their official plans. Recently, CMHC announced that it has a plan to purchase a number of granny flats. This is all fine and well, but these kinds of housing types are not permitted in many zoning bylaws throughout the province.

I just have a couple of other points. The province needs to revise the definition of affordable housing that was brought in under the previous government. Under the present definition of rent, up to \$1,440 would be considered to be affordable in Ottawa. The existing definition is based on the 60th percentile of average income. What we would suggest would be that the definition be based on 40%, the 40th percentile of the average tenant income. So we would strongly suggest a movement of change there.

Also, maximum unit prices: Ottawa did not receive any increase in 1990. We did receive one this year, so we feel we are far behind because certainly our land costs, I am sure you have heard from the private development sector that land costs have gone up substantially in this area over the past few years, yet the increases in the maximum unit prices have not kept abreast of the land cost increases. In fact, Ottawa has the third-lowest maximum unit price overall. Just as an example, Toronto receives \$161,000 for a MUP on a two-bedroom row house development, whereas Ottawa only receives \$95,000.

The restructuring of the whole maximum unit price system has meant for us, as developers in downtown, that it is virtually impossible for us to develop downtown. When you are providing housing and parking together, we just cannot do it because it has been restructured so that the parking premium is now a part of the maximum unit price, whereas the parking premium was separate. When we were developing downtown we could apply for the extra parking premium, but it is no longer together and it is a lot less money and it is very difficult for us to develop. Also, because of the restructuring of the maximum unit price structure, we are only able to develop high-rise development and that is not always the most appropriate form of development in downtown, especially when we always house a mix of families and seniors and couples. We do not just have seniors' housing or family housing. We always have mixed-income housing and mixed household types.

In closing I want to say that housing is more than a roof over one's head. Certainly, when Brenda was talking about housing and other people on the video were talking

about housing, they do not have access to good, affordable housing. Housing gives us our sense of wellbeing. It is one of the main ways that you as a government have to combat poverty. As your own document states—the Ministry of Housing has recently released its document for consultation in the community called A Housing Framework for Ontario—it is preferable and most cost-efficient to invest in community-based forms of housing which support individuals and households than to deal with the consequences of failing to do so. Our experience in operating community-based non-profit housing tells us that once people do have a stable home, there are so many other aspects of their lives that they are able to address.

1630

The Chair: We are running out of time. Your half-hour is up. There were not too many questions. The presentation that you made here seemed to cover all the bases of your group, the Centretown Coalition, so it was a very good presentation and it gave us a good insight travelling around the province to hear the concerns of people in Ottawa on how the budget affected them.

Ms Barton: I was told that—

The Chair: Do you have a copy?

Ms Barton: This is just a list of our coalition members.

The Chair: If you would give it to the clerk he will hand it out to the members.

ADVISORY GROUP ON NEW SOCIAL ASSISTANCE LEGISLATION

The Chair: The next group we have here is the Advisory Group on New Social Assistance Legislation. I would like to welcome you. You have one half-hour for your presentation. In that one half-hour, at the end, if you could, leave some time for the three parties to ask questions of your presentation. You may begin now by identifying yourself and your position for the purposes of Hansard.

M. Moscovitch: Bonjour. Je m'appelle Allan Moscovitch et je suis président du...

The Chair: Excuse me, sir, we will have to hand out the interpreters.

Mr Moscovitch: All right. I will speak in English.

The Chair: No problem, whichever way.

Mr Moscovitch: It is okay. I am président of the Advisory Group on New Social Assistance Legislation, chair in English. That is a committee which is advisory to the Minister of Community and Social Services.

Just to give you some background on what we have been doing and what we are about, the committee was appointed in May 1990, which is to say about a year and a half ago. We were appointed then by the previous government. We are a committee of 12. Our mandate was and remains to provide to the minister advice on the creation of a unified system of social assistance in the province of Ontario.

You will recall that in 1988 there was a major report from a provincial commission of inquiry which was known as the Social Assistance Review Committee. That committee was chaired by Judge George Thomson. It took

roughly two years to complete a report which was called the Transitions report. It was the first time in many years that social assistance received this kind of investigation.

The present legislation, or the legislation then which remains the legislation now in Ontario under which social assistance is made available, dates from, in one part, 1920 with the Mothers' Allowances Act, and in the other part, 1935 with the Relief Land Settlement Act. This is essentially the same legislation that we have now. It has been revised twice, once in 1959 with the General Welfare Assistance Act and once in 1967 with the Family Benefits Act. So you see, the 1920 Mothers' Allowance Act became the 1967 Family Benefits Act and the 1935 Relief Land Settlement Act became the 1959 General Welfare Assistance Act. That is the legislation which prevails in Ontario today.

The review which took place in 1986 and 1988 was a rather comprehensive review. It involved, in fact, on the part of the committee, some 23 days of public hearings and the receipt of 1,500 individual and group-related briefs, which, if it does not set a record, was certainly one of the largest such public consultations ever undertaken in the province. The report contained 274 recommendations on the reform of the social assistance legislation.

In 1989, the then Liberal government began the process of responding to what was, in the province, a great deal of expectation among community groups for substantial reform of what had simply become an extraordinarily outmoded piece of legislation which was in desperate need of modernization, not only from the point of view of the clientele, but from the point of view of those who were charged with administering the system.

The consequences of no amendment of the legislation meant there were an enormous number of regulations and we have of course a two-tiered system of administration so that individuals who are charged with administering the system have an enormous number of regulations and administrative guidelines which they have to take into consideration in determining eligibility for individuals.

In 1989 the province brought in what is known as the STEP program or in French, le programme PISTE, the supports to employment program which invested approximately 221 million new dollars into the system and enacted several of the recommendations which existed in the Transitions report.

If I can just explain it in words rather than reviewing what was actually done, the primary purpose was to break down what had historically been a barrier between work and assistance. Essentially, in the past you either were on assistance or you worked to support yourself and there was very little in between the two. In other words, there was a very small margin of earnings which was permissible under the system, at which point taxation kicked in at very high levels dollar for dollar, in other words, 100% tax level, and for every dollar earned above the minimum exemption level, there was a dollar removed from assistance. This was not, from my point of view, a very substantial incentive system for people who could be employed to be employed.

1640

The other thing that happened in the 1980s was that there began to be, particularly with the impact of the tax

system, a reversal of the traditional relationship between social assistance and the minimum wage. This happened largely because the minimum wage was not increased to keep pace with inflation. The consequence was that when you examined the after-tax rates of assistance, what you found was that the relationship was such as to provide little financial incentive to people to leave assistance for, for example, a low-paid job. This is not to say that this did not occur. In fact, it continued to occur in large numbers, and all the more surprising because it violates in fact what I think tends to be or is considered to be primary motivation that people have in society. But in fact what you find when you look at the numbers is that there was a considerable motivation on the part of people simply to be employed and support themselves even though in fact they may have had to pay a financial penalty to do so.

That is the situation that remains without a substantial increase in the minimum wage. We have changed, when we could take the tax system into consideration, what was the traditional relationship between the minimum wage and social assistance rates. The STEP program was intended to break the barriers down by reducing the tax-back rate, for example, down to 80% by permitting the deduction from gross income of a number of items that relate to the cost of work. Remember, for example, that in the income tax system the maximum is \$500 that is permissible for work-related expenses, and that is actually a relatively new innovation in the income tax system which was historically not permitted.

Of course when it comes to investment income, that is different; or income from self-employment, one is permitted to deduct a wide range of expenses; but a person who is an employee is not. Under the welfare system, this has been changed in order to create a broader incentive structure so that it would not in effect cost people a great deal in order to leave assistance and move into full-time or part-time paid employment.

Among the other items was a deduction for child care which exists in the welfare system independent of what exists in the tax system. In fact, in recent amendments announced by the minister in May, there has been a further change to enhance the possibility of child care deductions.

With the election, as you know, came a new government last September, and in October the new minister requested of the advisory committee a report in the short term as well as the report which had previously been planned on the unification of the system into one somewhat more modernized piece of legislation. That report appeared in March of this year. It was known as the Back on Track report in English, or in French, Relance. It contained a series of 88 items.

Why was it necessary to do a second report when we already had the Transitions report? The purpose was to look at how many of the good ideas in the Transitions report could actually be implemented, to provide some details on how that could be done, and to provide some costing of those items. When we did our review of those items which could be undertaken in the short term, unfortunately replicating in some sense the past in that we had only to work through regulatory reform—change of regu-

lations and not the legislation itself—what we found was that a substantial number of those could be implemented without substantial cost. About 49 of those 88 items were relatively low-cost items. However, the remainder did imply some cases of substantial costs, and the total estimate that we put on those numbers was \$451 million, of which some were intended to be one-time only expenditures, that is, for 1991-92 alone, and some would of course potentially be ongoing expenditures depending upon the size of the case load. But there would be permanent reforms to the system, and our estimates were contained in the report of what that would cost on the basis of our projections of what the case load might look like.

In the budget, which is what I am leading up to and which we are all here to discuss, the government responded to our report by an infusion of some \$216 million into the system. That is \$216 million for reform. It does not account in any way for the cost of simply running the system, and the \$216 million is a relatively small portion of the total expenditure which was projected for 1991-92 for social assistance which will run something in the order of 10% of the Ontario budget, that is, roughly \$5 billion. I think that was the projection contained in the budget itself.

What accounts for, first of all, the additional funds and why such a substantial increase in social assistance expenditures, which is reflected in what was taken to be a considerable increase not only in the budget but in the budget deficit? First of all, let me give you a few of the items that were in the \$216 million. Off the top, the first roughly \$15.5 million to \$16 million has to do with social assistance for aboriginal peoples in the province of Ontario.

When I refer to aboriginal people, I am talking about people who live in defined first-nations communities as opposed to aboriginal people who are in fact residents of urban or semi-rural areas but not in fact in a particular community or have been in that community within the previous year. That is the legal definition that we are talking about. There are roughly 130 such first-nations communities in Ontario. There are, when you examine the circumstances of those communities, many who live in considerable poverty, in conditions that we tend to associate with countries in what is known as the lesser-developed world. In some cases we have communities in which there are extremely few jobs of the sort that we come to understand in urban areas or even in smaller urban areas and rural areas, and much of the income in the community comes through social assistance.

That \$16 million was also in recognition of many grievances which reappear and reappear in report after report on the social assistance system in regard to native people for the last 15 to 20 years; grievances which were not recognized by previous governments, at least not to the extent that they were prepared to put money into the system. The irony of it, of course, is that what we are looking at when we count \$216 million, and agreed when we count \$5 billion as well, is the total cost of the program on the basis—and this is traditionally the way in which Ontario has made its accounting, and that is, that it accounts for everything that has to be expended regardless of its sources. This makes sense because once it commits itself

to making the expenditure, it carries the risk of doing so, and if the expenditures do not come from one source, they must come from another.

1650

In this case, roughly 97% of the \$16 million will come from the Department of Indian Affairs and Northern Development. The other 3% has to do with the differences between what Indian Affairs will recognize as an expenditure and what Ontario pays in its package of social assistance. So much of that is money that will come back in.

Let me look at some of the other things. I think it has been agreed pretty widely that the appearance of food banks, the overusage of shelters, the appearance of soup kitchens, has been a blot on our society in the 1980s, shocking to see their reappearance after 50 years. I think most people have understood that with the advances of the welfare state in the postwar period we would never again see the kind of relief lines that appeared in the 1930s, but yet we are now into the 1990s and we still have considerable lines in front of food banks and soup kitchens in Ontario.

Part of our purpose, and certainly part of what the government directed us to do in October last year, was to look at those whom I would term to be in profound poverty. That is, those people of all of the people below the measured poverty line, who are in the most profound poverty, who have the least. Among them are people who live in institutions, not only shelters, homes for battered women, but other kinds of institutions—homes for developmentally disabled persons, for example.

So part of our purpose was to try to direct money to those people who are in the greatest need to try to reduce the obvious disparity between those people on the street and the rest of society. A number of items were directed that way, one of which is what is known as the comfort allowance in the social assistance business. That is the amount of money a person can have in their pocket after, in effect, their room and board or their per diem is paid for, because they do not get that money directly. That money goes to the institution.

A shelter does not collect money from individuals. A shelter gets a per diem from the province in recognition of the fact that those people would have collected assistance. They come away with nothing in their pocket, people who live in what we used to call room and board and lodgings. Clearly, the numbers of lodgers have declined considerably with the gentrification of urban areas. None the less, there are a large number of people who live in room and board. When they come to receive assistance, they get a special room and board rate. That is all they get. They do not get anything in their pocket, or in many cases they do not.

More recently, they have gotten a small amount in their pocket, and part of our purpose was to increase that amount in the hope that those people, and those are many of the people who do appear in the queues at food banks and soup kitchens, would not have to be there so often. They could, in fact, cover their expenses in other ways. When you see people appearing it is not always because they would literally starve to death; it is because if they do not take food in that way then they have to pay for it with

everything else, and that leaves them nothing left over. So their only means of supplementing their income is to take a bag of food in order not to have to spend a little bit of money on the food so they can pay for something else that they are not getting. It is a survival mechanism. No one should fault them for it, because they receive a meagre amount of income.

We also talked in our report about greater fairness and we went to great lengths to look at what could be done in the short term to correct for some of the problems of fairness in the system. For one example, women who have been subject to abuse, to violence in the family, if they leave the family home which is unfortunately all too likely, they would have been, until the changes effective this month, only eligible if the combined income of themselves and their spouse, the spouse who was responsible for the violence, was below the levels necessary for eligibility. Otherwise, they would be deemed ineligible even though, for example, this might have been somebody who was substantially at home without any income. So they are left without any income, nowhere to turn.

What we recommended is that they have a grace period where we simply will not look at what their income is and ensure that in the short period of time until their life can be regulated, will have some form of support. We also looked at expanding support for self-employed persons. As you know, there are lots of people in this province who run corner stores. If you look at the income statistics by category of occupation, one of the things you realize is that people who run corner stores not only work long hours but they take, in effect, very low pay for what they do.

As you know, I do not have to tell you, there are an enormous number of bankruptcies among self-employed persons. One of the things we recommended is relaxing the rule on self-employment. Previously, you were simply, categorically ineligible if you were self-employed. In other words, it does not matter what your income is, you were ineligible by virtue of the fact that you were self-employed, but you could have been receiving, in effect, less after your expenses than the minimum wage, less in fact than social assistance recipients receive.

So we have recommended opening that up. We have also recommended a number of other changes having to do with assets that people need in order to earn a living. Does it make sense, for example, to tell a carpenter who is self-employed or who is employed on a seasonal basis to sell his tools in order to receive assistance, and then he is not able afterwards to work? Similarly, there are other examples where people hold assets of greater value, but those assets have to do with their employment. They do not have to do with the accumulation of luxuries.

Those are some of the examples of the kinds of things that we were trying to do to rationalize a system which had not been rationalized, had not been looked at systematically, and to make more sense out of it. We are also in a situation where there have been vast increases in the numbers of people who are receiving assistance, and our numbers have gone up dramatically. We have more than doubled the number of people who are receiving assistance in little more than two years.

What we are witnessing in Ontario is something that perhaps we are not used to—we are witnessing the effect of a major recession. The numbers of people now who are receiving assistance as a percentage of the population in total is roughly about 8%. If we look at those people who are of working age, that is, under the age of 60 in order to exclude, for example, people who are receiving support on pensions, it is over 11% of the remaining part of the population. That is the highest level that it has been in the last 11 years, and it is roughly double what it was in 1981.

We pointed out in the Back on Track report, and there is a chart which I would refer you; it does not contain the 11% figure because that is of 1991 and this chart only goes to 1990. It is again quite worrying. The chart is on page 36, for your reference, and I would be happy to ensure you have copies if you do not already. What is very worrying is this: We had a recession in 1981-82 as you know, and what we expect to see is, after a lag—because we have a three-tier system; we have supports through employment and we have the second tier down which is unemployment insurance for those people who have insurable earnings, which is in fact most people now, and thirdly we have the assistance system—we would expect to see after some lag, because people bounce from employment to unemployment to unemployment insurance and then to assistance if they are still unemployed after some period of time, we would expect to see an increase manifesting, say, in 1982 or in 1983 and then a decline as the growth hits, right? We all know there was a growth period, a growth spurt, roughly between 1984 and 1989. I know there were certain points in that period when in Toronto, for example, it was difficult for employers to find workers, and the effective minimum wage went to more like \$7 simply because of the labour shortages. But we did not see a decline in our numbers, we saw a levelling off.

1700

There was 4.5% of the population dependent on assistance in 1980 and it goes to 5.8% in 1983. It stays roughly around that level through 1986 and goes to 6.2% in 1987. So it is still at a plateau, well above where it was in 1980-81, and then begins to really shoot up after 1989. There is something happening that has to do with underlying structural changes in the economy. We are losing jobs. We have been losing jobs faster than we have been gaining them. The nature of jobs is changing also from better paid jobs, from what was traditionally known as the job triangle—am I running out of time?

The Chair: Yes, you are. You have about a minute and a half just to sum it up. I do not believe there will be any question time, but maybe there are some important facts you want to get out in that last minute and a half to two minutes.

Mr Moscovitch: —to what is known as the hourglass shape. The consequence of the hourglass shape is that what we have is a lot of low paid jobs and some high paid jobs and not a whole lot in between. What it means is that the traditional promotional route within a corporation, for example—start at the bottom and work your way up—becomes more and more problematic. We are now into another recession and the numbers have shot up even more.

The last point I want to make to you is this: Whereas in 1981-82 we did have a three-tier system, now we have what I might term a two-and-a-half-tier system. The federal government has made substantial changes in unemployment insurance to reduce the length of time that people are eligible for assistance and to increase the length of time it takes to become eligible. The consequence of that for us in what has always been known as fat Ontario and Canada is that we have been getting more and more people going straight to assistance and bypassing unemployment insurance. Later this year we are expecting a rush of people, unemployment insurance exhaustees, on to assistance. So the numbers we have now, which is close to 500,000 cases in the province of Ontario, is going up even further as a consequence of changes initiated by the federal government.

When you add to that—and this is my last point—the recent decision by the Supreme Court of Canada in regard to payments under the Canada assistance plan, what you realize is that, first of all, the base of payment for the Canada assistance plan in the province of Ontario as a consequence of that decision is not 1990-91, it is 1989-90. In other words, it is the year that the recession began to hit, not the year in which the recession is really hitting. So the base is substantially smaller for the 50% payment. That is the base on which the 5% is added, not 1990-91. So I do not know how many minutes we got into the year before we used up the 5%, but it was not very many. What has happened as a consequence of the changes being wrought by the federal government is a substantial shift of the cost of unemployment on to the province from the federal government in those two different ways.

The Chair: I would like to thank you for your presentation.

The committee adjourned at 1704.

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LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday 29 August 1991

The committee met at 0901 in the Delta Hotel, Ottawa.

1991-92 BUDGET

Resuming consideration of the 1991-92 provincial budget.

The Chair: Good morning. We will resume our hearings on the budget review for the standing committee on finance and economic affairs. I would like to welcome you here this morning, our last day in Ottawa and our last day on the tour.

AUTOMOTIVE INDUSTRIES ASSOCIATION OF CANADA

The Chair: I would like to welcome the Automotive Industries Association of Canada, Mr Dean Wilson. You will have one half-hour for your presentation. At the end, perhaps you could leave some time for questions and answers for the three parties. You may proceed.

Mr Wilson: We appreciate the opportunity to appear before your group and give our views. I do not think I am going to take a half-hour for the presentation, but perhaps my presentation may take 10 or 15 minutes and then we could proceed to the questions.

The Chair: Not at the end of the half-hour, but within that half-hour.

Mr Wilson: Within that half-hour, sure. I think we can cover all the ground we want to cover.

First of all, I will give you a brief description of who we represent. The Automotive Industries Association of Canada is a national trade association and we represent suppliers, distributors, wholesalers and retailers of automotive parts, accessories, tools and service equipment. We have roughly 1,100 members across Canada, and I would say that probably 40% to 45% of those members come from Ontario.

To give you an idea of the sorts of companies we represent at the supplier level, the manufacturers could be companies like Champion Spark Plug or Moog or Munro shocks, that sort of company. At the distribution level, we are talking about companies like UAP, Acklands, McKerlie-Millen, and at the retail end, Canadian Tire is our biggest member. We also represent Goodyear, Midas, Speedy and so forth.

That is who we are. We represent four levels in the aftermarket side of the business. Maybe I should point out that there are two obvious sides to the industry. One is the original equipment side, which is the assembly of vehicles and the production of parts that go into those vehicles. That is not us. There are some other associations that represent that group. We are the aftermarket side of it, which

is repair and service and distribution of parts to service vehicles on the road.

Where do we stand? The first issue I would like to talk about is deficits generally. The accumulated federal deficit has reached \$400 billion now. It takes roughly 30% of government revenues to pay interest on this accumulated debt. Our concern now with the Ontario government is that it would appear you are going to get yourself into the same jackpot as the federal government, with a planned deficit of \$9.7 billion this year. It seems to us far too much. I am not sure what your accumulated debt is in Ontario, but I suspect it is in the range of somewhere between \$40 and \$50 billion.

What we do not agree with is the direction in which you are headed, to increase debt. We have too much debt at the federal level, and now if the provinces start getting up to the same magnitude of debt proportionately, it is really going to make it tough. There is a connection here between debt and competitiveness in industry, because to finance the debt you have to have higher taxation. If you have higher taxation, businesses are less competitive. That is the crux of the problem, so we urge you to try to balance your budget and not incur deficits. That is really the major concern in terms of the deficit.

Turning to interest rates, they have come down probably 4% to 5% over the past year, which is in one sense good, and I believe the prime rate now is 9.75%, certainly better than it was a little while ago, but part of the problem is that the rate of interest in Canada is 2.9% higher than it is in the United States. Any time a company in the industry is thinking in terms of investment, either establishment of a new company or expansion of an existing facility, it is looking at the rates of interest, and if our rates of interest are 2.9% higher than in the United States, this is going to have an impact on the decision-making of those companies. Unfortunately it is not working in our favour now, and it makes it very difficult to convince companies to remain in Ontario and to invest in Ontario.

Obviously there is a connection between interest rates and deficits, federal deficits and provincial deficits. The reason the interest rates are higher, in my opinion, is that they need to be higher to attract the short-term investment to finance our payment of interest.

The other connection is that the high interest rates are keeping the dollar too high. Most economists seem to think the Canadian dollar is overinflated. Whether it is or is not, all I can tell you is this: At over 87 cents, our members find it very difficult to export to the US. We came out in favour of the free trade agreement four or five years ago when we were involved in the committees that were making the recommendations. However, at that time the Canadian dollar was 72 cents.

There was not a consensus in our industry, by any means, about whether we were for or against free trade. We did come out in favour, but we had some riders on it. We said that if the dollar got to the 80-cent level—at least that is what our members told us—we would be in trouble. It got to 80 cents and we were in trouble. At 87.5 cents, we are almost blown out of the water. The dollar is too high, and I am sure I am not the first person to tell you that. If you are going to try to make Ontario more competitive in the business community, we need to get the currency rate down to 80 cents or less.

Another issue I would like to touch on is cross-border shopping. As I mentioned, we represent the retail sector of the industry as well and it has been particularly hard hit in Ontario by cross-border shopping, partly, I guess, because of the proximity of a large percentage of the population to the US border. But there are a couple of suggestions I have for you to consider which might help alleviate the problem.

I believe there was a consultant who did a study a few months ago in Sault Ste Marie which showed that the number one reason people went to shop across the border was the price of gasoline. If the price of gasoline in Ontario was reasonably close to prices in the United States, it would remove a large incentive for people to go across the border. There is a fair amount of saving on a tank of gasoline to justify your reason for going across the border.

The Ontario government taxation on gasoline, I understand, is in the range of 20% to 25% of the total cost of the gasoline, be it 13 or 14 cents a litre, so it is substantial. We submitted some briefs to three of your government departments about the cross-border shopping issue and we suggested you might want to consider reducing the tax on a ratio basis as you get closer to the border, which might alleviate some of the incentive for people to drive across the border and shop. As it rests now, gasoline is a major reason why people go across the border.

0910

Another factor is the tire tax. You charge a \$5 tax on tires in the province and when you add the 8% provincial sales tax it is \$5.40 per tire. Our members tell us that a consumer can save \$200 on a set of four tires by buying them in the United States. That is a pretty substantial saving. So we urge you to get rid of the tire tax, the \$5.40. In any event, that \$5.40 was intended to go into a kitty to do investigation on disposal of scrap tires. The province has done some research work, I guess. It may have spent some of those moneys, but certainly not even the majority of the money has been spent on what it was originally intended for, so we believe you should scrap the tire tax.

In any event, if you need money to do the research, I suggest another avenue because you are getting leakage now. There are so many people going across the border to buy tires and you are not collecting the tax on those lost sales anyway, so why do you not put it on the registration of the vehicle licences, either on the person's driver's licence or registration of the vehicle once a year when you get your licence plates? Then you will not have any leakage and it could be spread over a broader base.

The whole point is that when you put it on a tire, what you are doing is encouraging people to go shop in the

United States, and it just does not make sense. We could argue all day about whether you should have had a tax on tires in the first place; I mean the intent of it. I do not agree with the concept of having a tire tax, period, but if you really need that revenue to do research on the disposal of scrap tires, for God's sake, put it on the registration of the vehicle or registration of the driver's licence.

That would be a far better way. You would not get so much slippage, and then you would spread the base evenly and then you would collect it. The way it is now, you have no way of knowing if you are going to collect it because every time somebody buys tires in the United States, it is lost tax.

The other thing is that we urge you to allow the fuel derivative use of the disposal of scrap tires. Some of the other provinces are now allowing it. I realize you are looking at some projects about using scrap tires for the paving of roads, but I do not think it is economically justified. You can get rid of the tires that way, but I think it would cost you money to do it, whereas I think research has shown that if you use scrap tires in kilns, for example cement plants, it is less of a polluter than, for example, coal.

I cannot understand why Ontario would not allow the use of scrap tires as a fuel derivative, as long as you monitor the use of it and make sure it is used properly and the emissions are at least within the range of other types of fuels. That is another suggestion of what you could do, certainly on a temporary basis until better means of disposal of scrap tires are found.

Another thing we feel very strongly about is the combination of provincial sales tax with the goods and services tax. We were neither for nor against the GST; however, we did work very hard with our members across the country putting on seminars to explain to them how it worked. We produced a handbook on the goods and services tax and we worked very closely with the departments of Finance and National Revenue trying to eliminate some of the more difficult areas in the administration and collection of the tax.

I think we were fairly successful. Our members have said it has gone reasonably smoothly in the industry. As I say, we were neither for nor against, but I guess the whole point here is that there is a 7% GST and there is an 8% Ontario tax and it is double administration. It is ludicrous.

I cannot understand why the provincial governments will not be more co-operative with the federal government on some issues. I realize there is a difference of political view on some of these things, but it comes to a point where the damned country is in trouble. Let's face it: We have a competitiveness problem in this country. We have to eliminate some of the waste and complexities that governments are creating for industries and businesses, and the GST is one of them.

Whether you disagree with the concept of the GST is one thing, but it is in place, it is there, so why do you not combine it with your Ontario tax? Then you would have a lot more teeth to try to stop cross-border shopping because then you can collect the GST and the provincial sales tax on sales coming back across the border for those people who are not entitled to exemptions, and then you collect more tax. You have less leakage. You also have less

cross-border shopping. You also have less administration by companies in the industry. That is another suggestion. We feel very strongly that you should have a really hard look at combining the provincial sales tax with the goods and services tax.

I realize this is perhaps not that directly related to your issue of the day, but I would like to talk about some proposed amendments to the Labour Relations Act. I got a letter from Premier Rae yesterday and he explained to me some of the things that are happening, but I think there is perhaps a little void in communication. He is pretty vague on exactly what is going to be proposed. I gather it is back with Mr Mackenzie, the Minister of Labour, to try to develop guidelines or proposals on how the amendments might proceed.

Some of the stuff we are hearing is very alarming to our members. I get a lot of calls from our members. I have talked to a lot of our members about some of the proposed amendments and I can tell you that they are terrified. I do not know that they are proposed amendments. I guess they are just on the drawing board at this stage.

You had a labour group that came forward with some proposals and you had some business people who came forward with some other proposals. They could not agree, but now if you lean too far towards all the labour proposals, you are going to scare the hell out of business and it is not going to invest in Ontario.

That, to me, is going to be self-defeating. The whole purpose of the Labour Relations Act is to protect jobs and to protect the way they are treated and so forth, but if there are no businesses around to employ them, then people are not going to have jobs.

I guess we cannot really get into details about it, but I just caution you about the changes to the Labour Relations Act, because I am hearing a lot of resistance from our members about your deficit in your budget. Bill 70 was kind of scary at first, although you have backed off, I guess, or made some changes which are a little more palatable, but this Labour Relations Act, I can tell you, is the one that is really scary.

All this adds up to competitiveness in our industry and competitiveness in other industries. If Canada and Ontario cannot become more competitive, we are going to continue to lose manufacturing jobs especially. The service industry, obviously, is going to have to exist in one way or another, although that is questionable near the border the way things are going right now.

We need continuing dialogue. I notice that in Mr Rae's letter to me he talks about great hardship for people and families across Ontario. I find it strange that he did not mention business in that sentence. He talked about people and families, but he did not mention business.

The business community is part of your constituency and I think you need to listen very carefully to what organizations like ours are saying. Our association would be very pleased to continue to work with all Ontario government departments wherever applicable. We have done it in the past. We do it all the time on a regular basis with the federal government. We urge you to consult with our association on the issues that affect us.

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Mr Morin: I have a quick question. I know Mr Kwinter wants to ask one too. We have often heard the Premier mention that he wants to establish a really good rapport with businesses. Obviously this letter does not seem to give you any hope. What would you suggest to Mr Rae that should be done to bring labour and businesses together?

Mr Wilson: I commend you for the fact you have held these hearings. I do not think it was your intent to hold them originally, but I think the fact that you have held them is good. We were invited here to give our views and we appreciate that opportunity.

On the business of the Labour Relations Act, which I guess is specifically the one of most concern now, I think you are going to have to achieve a consensus on what you propose. If you present a proposal that is strictly a labour-oriented amendment to the Labour Relations Act, it is not going to work. You are going to chase business away. But surely you can get the two sides back together to hash out something they could both live with. It is too one-sided now.

You got two minority reports, I guess, that basically came out. You had a business report and you had a labour report, so you have to get those people—what is happening on strikes right now? They do not agree. They have to get back to the table until they agree. You have to do the same thing on this Labour Relations Act. You have to get business and labour back to the table to come up with proposals that are finally going to be acceptable for both sides; otherwise, it is not going to work.

Mr Kwinter: Mr Wilson, I thought your presentation was evenhanded and quite moderate. You seem to be quite concerned about the deficit. We hear more and more presenters talking about the deficit, saying it is not the problem because the government chose to fight the recession rather than fight the deficit. Their projections show that for the next four years, they are going to continue with deficits of about the same magnitude. The lowest it gets to is \$7.8 billion in 1994-95. That in effect is going to double the debt. Notwithstanding that the Treasurer, in an article today, said that the proportion of the dollar used to service that debt is still going to remain at about 12 cents on every dollar, it is in fact going to double, and if it is 12 cents now, in real terms it is going to double the carrying of that. How do you think that is going to impact on your industry and industries like yours?

Mr Wilson: Oh, it is going to have a tremendous negative impact because we are overtaxed now. If your deficit doubles over the next three or four years, the money has to come from somewhere to pay the interest on the debt. Where is it going to come from? It is going to come from personal income tax, sales tax or corporate tax. Taxation is going to go up for companies, and we are going to be less competitive than we were before and we are going to continue to see loss of jobs to the United States. I do not agree with the philosophy. What the \$9.7-billion budget is, you are trying to throw money at problems. That does not solve anything. Handouts to people are not going to solve problems. You have to get industry more competitive so they

create more jobs. That is to the benefit of the people of Ontario.

Mr Villeneuve: The deficit is of great concern, and that is really why we wanted to see at least a message come through. Interestingly enough, a lot of the people who made presentations to this committee were saying, "Bravo, you're doing a hell of a job. Double the debt, and you'll never get into the same problem as the federal government," and yet, at the same time, they severely chastise the federal government for trying to curb some of the excess spending.

In Ontario—it has not been mentioned—the federal debt has to be carried by Ontario residents, as it will be carried by everyone. The doubling of the provincial debt must be carried by Ontarians. There are the \$30 billion plus of Ontario Hydro debt—we will have a 40% increase in Ontario Hydro costs here in Ontario—and the \$10-billion unfunded liability of the Workers' Compensation Board are things that have never been mentioned, and yet we have many groups, particularly labour groups, that come in and say, "Keep her going. Just get us more into debt," and at the same time, in the same sentence, chastise the federal government.

It is a very interesting scenario, particularly here in eastern Ontario. We have the province of Quebec. A short six years ago we had a 10% tax advantage. Now we are at a deficit disadvantage with Quebec and, of course, New York state. In the area where I come from, which is just north of Cornwall, we have Akwesasne sitting there with no tax on gasoline. So we have a double whammy in this area. You have mentioned the tire tax. Your industry probably effectively employs most of the people who have sat in the same chair you sit in here and said, "Now this government is looking after people." But people are employed by people you represent. There seems to be a great vacuum there.

My question to you is, when we incorporate the federal debt, the doubling of the provincial debt, the Hydro debt and the worker's compensation unfunded liability, can we continue taxing just to maintain that—I am not talking about reducing it—and have you people stay competitive?

Mr Wilson: The answer, of course, is no. We are not competitive now, and we will become less competitive as debt, both provincial and federal, continues to increase. I think there is a reckoning coming down the road. It would be nice to have all these social programs and fancy things for the people, but we cannot afford it. I realize, though, that it is a problem in that Canadians have a perception that the country owes them these things. I do not know. You have to change the philosophy of the people and make them understand somehow that we cannot afford all the services we are providing in this country; otherwise, we are going to go bankrupt. That is basically what it amounts to.

I realize you are getting pressure put on you by the feds. They are cutting back on some of the funding for social programs. They have to try to get their deficit under control. I think part of the reason your deficit is going to be so high is because you are trying to pick up the slack of the money that they are not giving you now. I think you should take the other approach, "We're going to have to

cut back, and everybody's going to have to pay the price and suffer a little bit in order to make ourselves more competitive." Why do governments get elected? They get elected to lead, not to govern by opinion polls.

Mr B. Ward: I would like to thank you for your presentation and some of the suggestions, which perhaps we could look at and explore in greater detail. An example you suggested was the removal of that tire tax introduced by the Liberal government previous to us and perhaps to take a look at increasing the charge for licence fees to compensate for the lost revenue. I would like to point out some things. First of all, we have heard some requests for a balanced budget by presenters. However, I think we are clearly on the record that all three parties are stating that for this year anyway there would be a deficit of some type. What level it is still would remain to be determined as the other parties have not clearly stated what it would be.

I am glad to see you clarified the last part of your presentation concerning the Labour Relations Act in that it is not proposed legislation; it is simply reports from a subcommittee formed by the Ministry of Labour to examine the Ontario Labour Relations Act. I get upset at times because we have heard that time and time again, a misconception. I do not know who is spreading that misconception, but there seems to be a misconception in the business community that it is proposed legislation when in fact it is not. I am glad to see you have clarified that. I hope that when the members contact you with their concerns, you can express that to them, that it is simply reports from subcommittees and will be consulted and examined from both the business and labour side. I agree they should be working together to try to come to some compromise.

Looking to the future, I disagree with your feeling that there are some things we should not have as a country. I really believe we should maintain our medicare system as much as possible. That is one avenue we should continue to look at, to maintain access to a decent health care system.

Mr B. Ward: Looking to the future, to build co-operation and trust between labour, business and government, an example would be sectoral skills training agreements. Do you think that is the proper way to go?

Mr Wilson: I think training is a key here, sure.

Mr B. Ward: To begin to build that trust.

Mr Wilson: You have to build the trust, sure. If some companies go down and some industries go down to a certain extent and people get laid off, you cannot keep paying them out of the government till. You have to retrain them and try to get them into another industry, another job or something, because otherwise they are going to be a burden or an anchor on the economy.

I would mention to you, though, on the labour amendments that I wrote to the Minister of Labour over a month ago asking him for clarification on what direction he was going in, and I still have not got an answer back.

Mr B. Ward: I will make sure you do.

Mr Wilson: I would appreciate the response and an opportunity to be involved in that.

I would like quickly to mention something about the medical benefits. I am on the automotive select panel. That

is the Canada-US group that was formed to try to make the free trade agreement work better. We are doing a major competitiveness study now. It is interesting that if you go to some of the states like Tennessee and Kentucky especially, they are being very aggressive about wooing business down there. They even take out advertisements in papers, magazines and so forth. The state of Illinois has been doing the same thing. They are very aggressive about attracting business to those parts of the country.

I can tell you that with health care costs in some of those states where there is non-unionized labour, they are far more competitive than us in that area. On the other hand, Canada is more competitive than the Big Three in the United States, but that is because they are unionized. So there is a bit of a double standard there in the US. Some of those states are very competitive, especially in health care costs. I think the province needs to be more aggressive in getting out there and wooing business to invest in Ontario.

The Chair: I have to cut you off at this time. Maybe you could put some of these points you bring up in a brief that you could send to this committee, since we do not have enough time and our half-hour has run out. Thank you for appearing.

Mr Wilson: It has been a pleasure.

0930

GARTH TURNER

The Chair: The next presenter is Mr Garth Turner, MP. You have up to one half-hour for your presentation.

Mr Turner: I would like to thank the committee for the opportunity of being here to make a contribution on this important topic. I would like at the outset to praise the committee for the work it is doing. I think it is extremely important to have this kind of in-depth look at an economic document such as a budget. I also applaud this government's decision to hold hearings. I think that was a progressive move and you are to be congratulated for it.

My personal experience with committee work at the federal level certainly emphasizes my belief and conviction that this committee can do a lot of good work. I am not here today to chastise or to preach, but to try to share some experience I have had at the federal level and also some of the knowledge I bring from some of the feelings of taxpayers in the province.

Let me very briefly go through the first part of my brief, which I call "Deficit Financing: The Federal Experience."

It is useful for those framing the Ontario budget to look long and hard at Ottawa's experience with deficit financing. Of course, that is the practice of deferring taxes through deficits in order to increase spending without increasing taxes. In broad terms, during the 1970s and 1980s Ottawa took the political decision to keep taxes low and to concentrate on deficit financing. In the five-year period prior to 1984, 17% year-over-year spending increases were the norm.

Ottawa, as we all know around this table, did not have taxation policies that kept up with spending policies. That culminated in the 1981-82 recession, where we had by the end of that, and going into 1984, almost a \$40-billion

annual shortfall and the accumulated deficit, that is, the national debt, had risen to more than \$200 billion by 1984. The composition of that particular deficit is the most worrisome here, because of \$38 billion a year, \$16 billion was being borrowed to finance spending on programs and only \$12 billion to pay the interest on the debt.

The legacy of accumulated deficits is a debt, and as we all know, through the magic of compound interest, debts have a way of increasing on their own. That is in fact what the federal experience has been since 1984, because that \$200-billion debt has now mushroomed to almost \$400 billion. That is not because the government overspent but because of the interest on the debt that was there in the first place.

It has been a cancerous experience. In order for the government to get out of that box, it has taken cuts in transfer payments to the provinces, cuts to Via Rail, cuts to the CBC, and the GST and some 30 other tax increases.

We know what the political cost has been. We see in a new Gallup poll today that the federal Tories are at 12% in the polls. A lot of that has to do with these efforts that were made necessary by the debt that was there and has just exploded because of the magic of compound interest. That has been the federal experience.

I am not here to tell you how to run the province, but I am here to say, look at the experience of another level of government which has gone through a similar political decision-making process to what the government of Ontario appears to be doing now. This is what I hope the Ontario government will consider as it embarks on the same course as the federal government took about a decade ago.

Let's not forget that deficits are deferred taxation. This is the most important point. While the province of Ontario defers \$9.7 billion this year, it will have to be taxed at some point in the future. Because of compound interest and accumulated debt, it will have to be taxed to cover a higher amount in the future.

I run through some of the statistics on the budget under study. I will not bore you with them here, because you are experts on it. You know all about the government, its impact, its fiscal projections, the projected accumulated deficit accumulation over the next four years, and the fact that you will accumulate more debt in 48 months than in the previous 125 years.

I do not want to fall into hyperbole, but I will say that I think there are some macroeconomic consequences of some of the political decisions the government has taken.

For example, I believe this particular budget will impact on inflation rates and interest rates. In fact, as you know, being experts in the field, the two are very much interlinked, interdependent. Interest rates are likely to come under greater upward pressure as Ontario, being the biggest and most important economy in the country, increases spending and increases its deficits and accumulated debt. As we all know, the laws of supply and demand apply to money as well. Money is a commodity. When money is in demand, the price goes up. Ontario borrowing excessive amounts of money compared to past history puts more demand on the supply of money. Therefore, the price of money goes up, and the price of money is interest.

Also, Ontario has granted wage increases to civil servants and increased its spending by about 13.4% in a single year. That has to be inflationary. I am sure the Bank of Canada is somewhat concerned about the impact of Ontario's budgetary policies on its own targets for fiscal and monetary policy. I know it is concerned about that. This amount of extra spending by Ontario can knock the Bank of Canada off its course. If that happens, then we are going to get higher interest rates.

The net result is declining competitiveness and that is what perhaps is of most concern to the federal government, if I can speak for some of my colleagues, because the debt in Ontario is seemingly to be institutionalized. It is going to guarantee the need for future higher taxes. It is going to make it less competitive to set up shop in Ontario, and I think if we lose potential investment in Ontario, we are losing potential jobs. I just do not see how that benefits my province.

Finally I think this particular budget, ironically, may be laying the seeds of the next recession. I say that because if we scare off some potential investment from the province, potential jobs, if we knock inflation and interest rates off their course, then the rather fragile recovery we are seeing now could remain fragile and perhaps be jeopardized in the future.

Finally, I mention the social policy of deficits. I know the government in Ontario now is very concerned about social policy. As we all know, deficits are financed through government borrowing. Governments borrow essentially from those who have capital to lend, be it in the form of bonds or Treasury bills, whatever. Normally, individuals who have capital to lend to governments tend to be those who are either corporations or well-off individuals. When the interest is paid to those people who are bondholders of the province, that money comes from tax revenues collected from all the citizens of Ontario, whether they are single mothers or bank presidents. In other words, when you run deficits, you actually are encouraging the rich to get richer by nature of where the interest flows. I am not exactly sure that is the philosophical bent of this government and I am not sure how you can actually support that.

In part 2 of my brief I touch on the national implications of the Ontario budget. Speaking as a federal politician, I must say that I do see far-reaching consequences beyond the borders of the province in this budget because of the importance of the Ontario economy. Again, I go through some of the macroeconomic points I made a moment ago, inflation targets, interest rate targets and so on, because higher inflation through Ontario spending brings higher interest rates and we get lower competitiveness in the Ontario economy. That affects all of Canada because of the importance of the Ontario economy.

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I also make the point that it would appear that the Ontario government is out of step right now with most of the other governments in Canada, other provincial governments and the federal government, because while the Ontario government has chosen to adopt a recovery through spending approach, basically all the other governments in Canada have adopted a recovery through

restraint approach. I think it is incumbent upon the committee to revisit that fact and to perhaps ask itself whether the government of Ontario alone is the sole repository of economic wisdom in this particular approach. I am not saying it is or it is not, but being so out of step with all the other governments in Canada I think is a point you must address.

Finally in my brief I touch on the impact of the Ontario budget on individuals, because as I say, macroeconomics is one thing, but the Ontario budget will do more than that and more than worry the economists and the business leaders; it will have a direct impact on the men and women who are taxpayers in the province. The most obvious impact, of course, as is always the case, is direct taxation. I note that the budget increases by about \$1 billion the tax load in this year on Ontario taxpayers. In addition, it defers almost \$10 billion in what will essentially be direct taxation in the future.

I quote a friend from the Canadian Federation of Independent Business as saying that it categorizes this budget as being a tax time bomb. This brings me to the most salient point, probably, in this brief. If you remember nothing else of my brief appearance here before you, I hope you remember this.

Taxpayers at all levels are feeling very much under the gun. I am not saying any one particular level of government is to blame for that. I think all of us, as politicians and elected officials, share a responsibility in that. But there are four or five sets of government and one set of taxpayers. They are feeling most pressured right now.

As we look at deferred taxation, as we add another \$30 billion or \$35 billion in debt or potential future taxes in Ontario, we have to look at the consequences. In my brief I mention two of the most obvious.

One is cross-border shopping. I think this particular budget will have an exacerbating effect on cross-border shopping. I accept blame that the federal government is involved in some of the reasons this is happening as well, but any additional impetus that we give to people to cross the border to shop hurts all of us and hurts our province.

Second, there is a tax revolt movement gaining speed rather rapidly in Ontario under the umbrella of a group called the Taxpayers Coalition Ontario. They have several tens of thousands of members now and are continuing to organize. I know many of the people who are involved in this. I have not been discouraging them in their activities, because I think that all politicians at all levels need to have the hounds of hell breathing down our necks, and if that is a tax protest, that is fine. Anyway, it exists. I can see the contents of this particular budget giving great cheer to those people as they are out there organizing and exhorting others to become mad as hell at politicians at all levels.

I also feel that as this budget puts pressure on inflation and interest rates, we are going to end up with higher mortgage rates and personal loan rates. We do not need that right now in this fragile economic recovery. We need consumer confidence; we do not need consumer doubt and obstacles. Reduced economic activity can also be an expected result of this budget, because as I say, the recovery is fragile and the anticipation of higher taxes and higher

interest rates is not welcome. Finally loss of investment capital concerns me a great deal, because we need all the investment we can get in this great province. We need investment so we can have jobs, and all of us have a stake in that.

I will conclude my remarks there to allow members some time for questioning. Thank you once again for this opportunity. I hope I can add in a very small way to the deliberations on this. Again, my congratulations to the committee and the government for agreeing to these hearings.

Mr Sterling: Mr Turner, your reputation is known among federal politicians as well as provincial politicians in terms of these kinds of issues. The favoured tactic of the government party has been to blame all the problems on the federal government. Also their straw men in these hearings, the unions which have appeared in front of the committee, have gone up and down the sides of the government talking about the reduction of federal transfers, the monetary policies of the Bank of Canada and the free trade agreement, "Those are all problems for the recession and we are not to blame for any of this." Would you care to comment on any of those particular issues?

Mr Turner: Certainly. I am well aware of the critics of the federal government and their arguments in an economic sense. I think we can address them one by one, but more important, I would point out that some of us tend to forget that there are business cycles and that after seven or eight years of strong economic growth, it becomes human nature to expect that there will be no correction. However, as you know, 18 months or so ago, at the end of the business cycle, we were seeing the natural economic results. That was upward pressure on inflation. Therefore the Bank of Canada adopted a high interest rate policy to try and dampen those pressures.

The money supply was increasing rather rapidly 18 months ago, and that was of great concern to the Minister of Finance. The intent was to try and cool out the economic cycle without depressing it unduly. History will tell whether this was a major or minor recession, but in terms of some of the issues you talk about, free trade and so on, I think there is some evidence to say that the recession might well have been deeper with more severe job loss had we not had some of the safeguards that are in the free trade agreement. But again, I think we are looking at this from far too myopic a position and it is going to take some period of time over history to know, looking back on the free trade agreement as a 10-year-long diminution of tariffs, whether this was a factor or not. But I tend to think not, at this point.

Mr Sterling: As a federal politician, you would have much more exposure to what is happening in other provinces. Your colleagues from other provinces would be talking, no doubt, about the recession. In your estimation—I do not know if you have any feeling for it at this time—how are we doing in Ontario compared to other provinces with regard to this recession? Are we recovering as fast? Are we feeling it as deeply as the other provinces?

Mr Turner: In speaking with my colleagues in the House and also in my travels, I must say that Ontario is

suffering, to my knowledge, the greatest penalty of this recession. Certainly it has been hit for a number of reasons. Our manufacturing base is significant and therefore a recession is going to impact us quite severely and quickly, but I must say it would appear that some investment decisions have been made in a negative sense towards Ontario; that is, some companies have decided to defer their investment in this province. I think there was a survey that came out yesterday showing that 37% of potential investors had decided not to invest in Ontario. That may be due to a number of factors, but I think this budget is certainly a part of that, where the anticipation of higher costs in the future and significantly higher taxation in the future is causing people to think twice about investing in Ontario. That will only prolong this recession here.

Mr Sterling: In 1984 the Conservatives came to power with \$200 billion of deficit which was a legacy of the Liberal government at that time. In 1995 or 1996—I do not know when the next provincial election will come—there is going to be a legacy, it appears, of about \$80 billion there, if we are to believe what happens. What would you do at that stage of the game if you were coming into power? I think there is quite a parallel, and you play on the parallel with regard to the experience. What choices is the next government going to have?

Mr Turner: I think the choices the next government will have are the same despicable choices the federal government has had over the last few years; that is, if there is to be a restoration to fiscal health, then cuts have to be made. I guess the irony is that after years of running deficits in order to support social spending, then the government that inherits it no longer has a choice. There has to be restraint brought in in order to rescue a sinking ship, and that puts those very social programs at risk.

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We need only look at the federal experience of cutting Via Rail, the CBC, transfer payments and special interest group funding that in a political sense nobody wanted to do. In an economic sense there was no choice, because we were forced; our backs are to the wall. Staring \$400 billion in debt in the face, the federal government has no choice, and I submit that by the time of the next Ontario election the ratio of deficit to gross domestic product in Ontario will be twice as bad as at the federal level.

Mr Sutherland: I guess as a provincial politician what concerns me the most in terms of your presentation—you have talked about it and certainly understand the federal deficit problem—is the fact that many of the measures taken by the federal government that have had a tremendous impact on this province and on other provinces have been done in what I would consider to be a somewhat arbitrary measure, in terms of rewriting the fabric of this country and what it is that has brought us together, the common values for the country. In a sense, if the federal government had negotiated with the previous government and said, "We're both in a bind here. We've got to find a way of capping transfer payments, in a negotiated sense," and then this government had gone out and

put on a larger deficit, then I think there would be some valid criticism.

But you take a combination of the free trade agreement and many of these federal factors. I do not think they can be ignored. You take an overly tight monetary policy. We have even had the Royal Bank in here saying the policy has been that the dollar should be around 81 cents or 82 cents to allow our industries to compete. You take the changes to federal UIC. We have a \$1.4-billion increase in social assistance payments. They are going through the roof because changes were made to the UIC without what I consider to be a negotiating process with the provinces as to how they were supposed to pick up the additional cost. There are also cutbacks in the transfer payments. I guess my concern is that it is one thing to say, "The Ontario government shouldn't be doing this," but it is another thing when the federal government is rewriting the economic relationship and I think in some ways rewriting the whole relationship between the federal and provincial governments in an arbitrary manner.

Mr Turner: I am not going to argue with you. I happen to agree with a number of the points you are making, particularly in terms of the need for more intergovernmental co-operation. Yes, I do agree with you in that I think part of the malaise of the whole Canadian nation is a bunch of governments fighting each other. I think that is really regrettable. I do not want to lay blame on one side or the other. I am just saying it is a common observation. I would agree with you and I think there should be more negotiation and co-operation. We probably have too many levels of government anyway, to start with.

Having said that some of the cuts have been made in an arbitrary fashion and that it hurts the fabric and common values of our country—I do not argue with that either—I think there is a price to nationhood and we are paying the price right now. In fact, we are paying for a lot of decisions that were made in the past for crass political reasons that today are hurting our country. If we cannot afford our social programs, if we remove from ourselves the ability to make decisions in terms of our spending, then we only hurt our country, so I am not going to argue with you on those points. I do not blame specific federal government policies, but I do think, yes, we need to talk more, negotiate more and co-operate more.

Ms M. Ward: I would suggest that it is not the person whose unemployment insurance has run out and is now going to be on welfare who should be paying that price for the government disagreements.

You were speaking earlier about the free trade agreement and inflation and the deficit. I do not have time to ask all the things I would like to ask. One thing, about inflation: One of the biggest inflationary factors this year was the GST, which I think most people agree has added about 2%. Do you think that was the right time for this to come into effect? That is keeping our interest rates high and the interest rates are one of the biggest factors in the recession, I believe. What are your comments on the GST coming into effect at this time?

Mr Turner: My first comment is it has nothing to do with the Ontario budget and you are nicely throwing the ball from your court to mine.

Ms M. Ward: No, it has to do with it. Because of the recession, we have to keep the support in place for people.

Mr Turner: I will gladly toss the ball back, though.

I happen to be chairman of one of the House of Commons committees that conducted hearings into the effect of the GST on consumer prices. We concluded that likely the GST would have a one-time price impact of between 1.5% and 2%. In effect, the GST consumer agency I think reported that the effect was around 1.35%, as its final impact. It was not unexpected and the inflationary impact was about where the Minister of Finance thought it would arrive.

Was it a good time to bring it in? There are two schools of thought on that. One is that if you raise any prices during a recession, you are further deepening the recession. The other school of thought is that if you are depending upon the open and free market and competition in order to minimize the impact of the tax on inflation, that is a good time to bring it in, when people are scrambling to maintain market share.

I do not pretend to know which of those is absolutely correct and I do not think anyone will for a period of time, but I certainly saw a lot of people advertising—Canadian Tire, Sears and others—saying, "We will pay the GST," during the first few months of this year.

Mr Kwinter: I have to admit I have read your articles over the years and have not agreed with all of them, but I think you have made some good points. I think the number one point you have made, and contrary to what you say about if nothing else is remembered about your presentation, is that deficits are deferred taxes. There is a feeling certainly from the comments I have heard from the government side that deficits are a bookkeeping entry, that they do not realize that somewhere down the line someone has to pay for that. When you have a debt that is going to double in four years and all the payments that are being made are just being made to carry the debt and not to reduce that debt, you have a problem.

I was interested in your comment that from a debt-to-GDP ratio, ours is going to be double that of the federal government. How is that going to impact, in your opinion, let's say at the end of that four-year period? Where are we going to be?

Mr Turner: I mentioned in my brief that the government of Ontario is quite out of step with the other governments in Canada. I think by 1994-95, that will become even more acutely evident to a lot of people. I can certainly see that while the federal government is getting its deficit under control, and hopefully to zero by 1995, the bond rating services are going to look at Ontario as being quite out of step with other governments that took measures to restrain spending in the early 1990s. So by the mid-1990s, I would say, this province is going to have to raise a lot of money to service its debt and it could be very expensive money because of bond rating service downgrades.

Mr Kwinter: Could you also give me an idea of how outside investors look at that? What is your feeling about that?

Mr Turner: I think the survey I alluded to yesterday, which shows that already investment decisions are being taken negatively towards Ontario, will only accelerate. As Ontario slides further into a structural institutionalized debt, the kind that Ottawa has suffered, then I think we are going to see a loss of potential investment. No one can measure it, because it is potential. It is not there to be realized. But I think the signal being sent out to investors is a highly negative one, that the cost of doing business in Ontario can only increase. When Ontario is competing with Ohio, Michigan, New York and Pennsylvania for investment dollars, we have to be competitive. Part of that is a tax structure that is as low as possible.

Mr Kwinter: Several of the presenters have stated that in their opinion the corporations are not paying enough tax, that they are not paying their fair share of tax. What is your response to that?

Mr Turner: It may be true in terms of being compared with personal income, but having said that, I hark back to my statement a moment ago that this province is in direct and constant competition with northern American states and the Sunbelt as well. In order for us to attract more manufacturing, more industry, more service industries to Ontario, we have to have a competitive tax base. So I think it is quite facile for people to believe that all we need to do is crank up the corporate tax rate by five points and we can pay all our bills. We may pay the bills, but it is a very temporary way to do it.

The Chair: Thank you for your presentation.

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ONTARIO ENGLISH CATHOLIC TEACHERS' ASSOCIATION

The Chair: The next group is the Ontario English Catholic Teachers' Association, Mr Mike Coté, president. You have one half-hour for your presentation.

Mr Coté: I would like to introduce my colleagues. Helen Biales is the first vice-president of the Ontario English Catholic Teachers' Association. Jim Carey is the general secretary and Terry Mangan is the deputy general secretary of our organization.

I would like to begin by thanking you for the opportunity to make this presentation and also for allowing us to come to Ottawa. I think the original plans would have had us presenting in Toronto, but because of meetings several of us had to be at during that time, we were unable to be present with you in Toronto.

The Ontario English Catholic Teachers' Association represents over 34,000 women and men who have chosen teaching careers in the separate schools in Ontario. This is the first time the Ontario English Catholic Teachers' Association has made a presentation concerning a provincial budget. We have requested an opportunity to speak before this committee not because we believe we have a better understanding of finance, nor whether spending one's way out of a recession is superior to squeezing the life out of

inflation, but because our members see the human effects of cutbacks, inflation and recession.

Societal conditions, and fluctuations of such, are nowhere better gauged than in the classrooms of the province. The successes and failures of the economy are reflected in our student populations and their families.

In our view, the bottom line of recession goes far beyond the corporate balance sheet. It is reflected in the despair of widespread job losses and displacement of families and individuals, in the stress of marriage breakdowns and increasing domestic violence, in the frustration and helplessness of those dispossessed through no fault of their own. Sadly economic realities and their social consequences are also reflected in the children in our schools.

In the budget papers, the Treasurer indicates that the hardship suffered by many of our citizens during the recession is understood at government levels. You can read for yourself the quote there which I am sure you are familiar with.

The Ontario English Catholic Teachers' Association is particularly pleased with the program to establish an employee wage protection program. It is ironic that even in this day the value of time and effort invested in a business or enterprise by an employee is not deemed to be at least the equivalent of a dollar investment.

Programs designed to place women and children first are immensely important in a time when societal and domestic violence appears on the upswing. The Ontario English Catholic Teachers' Association believes it is incumbent upon society to reach out to individuals and families, assisting them to obtain the tools to become full participants in our province.

Considerable acrimony has been heaped upon the province's proposed budget by both business and our federal representatives. The greatest fluctuation in provincial income has occurred in three main areas: Income from federal payments has been reduced from 15.4% to 12.4%; income from corporation tax has been reduced from 11.1% to 7.4%, while income from personal income tax has risen from 30.4% to 37.1%.

Some of the business community most opposed to the proposed budget are the ones most likely to gain from the deficit. Certain members of the financial community will be able to extract a fee for placing the Ontario government's debt instruments with investors. Perhaps in a gesture of good citizenship, the fee will be waived so that the deficit can be lessened for all Ontarians.

It is important that business co-operate with government. The wealth needed to operate the business machine must be coupled with the government's need to deal with social justice issues in order that both may achieve their goals.

In the Premier's Council report, 1990, we are informed that US firms invest twice as much on formal training per worker and that German firms spend up to four times as much as do Canadian firms. Perhaps expenditure by Canadian firms in worker training at this time would be of more assistance to our Ontario society than some of the senseless rhetoric to which we are being exposed.

New job creation is of paramount importance in this province. In the 1982 recession, about 24% of layoffs were permanent. In the 1990 recession, approximately 65% of

layoffs were caused by permanent plant closures. Blaming such closures on a high Canadian dollar, free trade, GST or high interest rates can be more self-serving than productive.

The government has proposed that there be no major cutbacks in social service areas as has occurred in other Canadian jurisdictions. Cutbacks would have hurt the marginalized, the newly employed, the entrepreneurs as well as other business ventures, yet we must be cognizant of the problems inherent in a deficit. In preparing this paper the association reviewed a number of structures which might help determine how high is too high, or failing that, how low is reasonable for this recessionary deficit.

There is a chart that appears on the top of page 6. Those numbers, expressed as a percentage of total expenditure, are found on page 72 of the budget. The education numbers indicate that the provincial allocation to education, while decreasing over the last number of years, is being maintained during 1991-1992.

With regard to the public debt interest, even with a relatively large deficit, interest payments are projected as being comparable to those paid in previous years. Any decrease in expected revenue from federal sources must be made up by Ontario taxpayers. While we would prefer that debt servicing costs be eliminated, it must be noted that debt servicing costs on Canada's deficit are projected to be 21.7 cents per dollar higher than that projected for Ontario.

According to the *Toronto Star*, April 30, 1991, we find that this deficit is expected to be about 2.4% higher than that encountered some 9 or 10 years ago. We are unable to make a definitive statement on the need or the size of a deficit budget, though in the April issue of the *Toronto Stock Exchange Review*, Peter Traynor writes, "This implies that Mr Laughren's method may be right in spite of its seeming madness." In his *Financial Post* column, *Inside the Markets*, Patrick Bloomfield states: "This column has no quarrel with the additional \$3 billion or so that Laughren is putting towards social relief, health costs and education. Any community's most important asset is its families. Invest in them and you invest in the future."

In a May 31, 1991, article to the *Globe and Mail*, John Kenneth Galbraith, in extolling the importance of removing government from the deflationary track, states in part:

"Why not revive the economy with greater public investment? It is in this regard that the Ontario government is leading the way. It has decided to cut taxes for people with low incomes, to provide more money for social assistance, affordable housing and capital projects."

There are quotes on page 9 from Hansard, June 27, in which Mr Whitestone indicates that the \$700 million is particularly useful for the economy at this time and that a deficit in the order of \$4.5 billion would not be out of line. Although speaking against the many, J. G. Frank of the Conference Board of Canada seems to present a common-sense point of view when he states, "Although a tighter fiscal plan would have kept the deficit constant, it would have had a major adverse effect not only on Ontario but on Canada."

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Consideration must be given to the basic alternatives available to Ontario's Treasurer at budget time during a

recession. The Treasurer may raise taxes, cut expenditures or provide a deficit budget.

In a presentation to the standing committee on financial and economic affairs on Thursday, June 20, the Treasurer explained the effect of not increasing transfer payments. When queried as to what might be done should Ontario have extra revenue during the next four years, in a column in the *Financial Post*, May 15, the Treasurer is quoted as saying, "As a Treasurer...I'd be looking to get those"—deficit—"numbers down faster."

Clearly, the experts agree that a deficit budget of some magnitude is inevitable. This debate then is solely over deficit size.

The Ontario English Catholic Teachers' Association had hoped that additional funding might be available for the building of more schools so that fewer of our children would be required to spend their days in portable classrooms. We had hoped this budget would see a move towards 60% government funding of education, a move which would alleviate some of the financial burden currently shouldered by the local ratepayers. Neither has come about with this budget, but then neither has this budget thrown parents out of work, and by increasing funds to the needy, we can only hope that all students receive the care and nurturing they deserve.

As a significant deficit appears inevitable, we commend the government for its commitment to the people of Ontario. The citizens of this province must be shown care and expressed consideration during this period of real recessionary hardship. On behalf of the children of all our schools, we thank the government for maintaining for our students the same level of service as in the past.

The Ontario English Catholic Teachers' Association asks this committee to recommend (1) that the budget be implemented as quickly as reasonable; (2) the deficit in year one be kept as low as possible, with projected deficits into the second, third and fourth years being minimized; (3) government, business and industry co-operate in order that the economy of this province be competitive and vibrant in the world marketplace; and (4) the wellbeing of the citizens of this province remain the number one priority of Ontario legislators.

Mr Christopherson: Thank you very much for your presentation, an excellent description of the circumstances as you see them regarding the budget. I would just like to hear in your own words—I have asked other groups this; I am doing it as much to get it on the record as for our edification, and I offer that up front—had we flat-lined, and you make some reference to it, this year and indicated that during the term of this government increases to our transfer partners would not have kept pace with inflation for the next three or four years in addition to just this year, what would have been the impact both on the school system you are part of and also the children and the communities that would have to pick up the slack? Just from where you sit, in your words, what would that mean to those important entities in our communities?

Mr Coté: I have seen statistics that indicate that if the government were to have flat-lined the transfer of

payments to boards of education, the result would have been closure of approximately 6,000 classrooms. I do not know if those figures are accurate, but if they are anywhere close to that number of classrooms, then that would have had a disastrous effect on our school system at a very critical time.

Right now, as you are probably aware, we are involved with the Ministry of Education in a massive restructuring of education undertaking that involves consultation and efforts by practising teachers as well as the people in the ministry. Such an effort, to be successful, depends a lot on trust and goodwill and faith that people who are in positions of authority mean what they say and are able to deliver when they talk about improvements in education.

To close 6,000 classrooms around this province would just have devastating effects on the goodwill that I think is there right now as we proceed through this restructuring of education. I think the restructuring project is going to keep our province at the very forefront of education in the world. I think we have the best education system in the world. I think we can maintain that and keep up with evolving developments, but if we were to flat-line the transfer payments, it would be a major backward step.

Mr Christopherson: Further then, I am going to put a situation to you and ask you to comment to it. Some groups have come forward and said that we hear from a lot of self-interest groups who have a vested interest in seeing us continue flowing cash to the traditional people and groups and organizations that receive it, that really, to put this province on a stronger financial footing, what we need is anywhere from a 10% to 20% cut in everything, and that if everybody would bite the bullet then we would become stronger and would be in a better position to resume funding to the groups and targets we would like to.

To take it a step further, I would like to ask what would happen—I have asked you to answer if it was flat-lined—if there were an actual cut of 10% to 20% in the funding you receive? What kind of situation are we then looking at?

Mr Coté: I think that in that situation school boards would be very hard pressed, especially in this year of municipal elections, to go to the ratepayers and try to make up the shortfall they would not be receiving from the provincial government. I think the enormity of the classroom closures would be much greater, and the effect of that on the quality of education our children would receive would manifest itself years later in a poorer product being developed, if you want to talk in crass business terms. I think you have to be willing to spend some money on our most important resource, our children, if you want to maintain and improve upon our level of competitiveness in the world economy.

A little analogy that just came to mind—I do not know if it is exactly appropriate, but I will try it out on you—is that if a farmer was told, "Sorry, we can't afford the amount of seed you normally would put in the ground to produce your crop; we have to cut that in half or we have to reduce it by whatever percentage," of course the end harvest is going to be much smaller, much less significant and in the long run, by not paying for the seed in the first

place, the farmer is going to have a much lower income in the end because the product will not be there.

Mr Kwinter: Mr Coté, as an educator, if you had a classroom of 15 students and one of your students stood last and got 55% on his examination, would you choose him to be your valedictorian?

Mr Coté: That is a very interesting hypothetical question. First of all, I have never had a class of 15. I would welcome that opportunity. The choice of valedictorian is one that I traditionally have left up to the students.

Mr Kwinter: The point I am trying to make is that you referred to James Frank as being your sort of model of economic accuracy. In a study that was done by the Financial Times of the 15 top economists in Canada, he was ranked 15 out of 15, and his accuracy rate on his predictions was 55%. In fact, he had a 67.3% error rating. The point I am making is that he is the one guy everybody quotes. There are 50 economists, 50 people who are saying that this budget is a very bad document; nobody quotes them at all. All they do is come in and quote Frank.

I want to get to another question. I would like to get your observation. On page 3 of your presentation, you say that the reason the budget is in trouble is that the transfer payments from the federal government were reduced from 15.4% to 12.4%. You are saying that income from corporation tax has been reduced from 11.1% to 7.4% and personal income tax has risen from 30.4% to 37.1%. The implication is, "Look at how high personal income tax has risen and look at how low these other taxes are," as if something is wrong. The federal we cannot talk about. We have no control over that. The federal government made that decision, so I cannot discuss that, but when it comes to the corporation tax, I would suggest to you that the reason the tax is reduced is because their profitability has been reduced. They are not making any money. The bankruptcies of companies—all you have to do is read about it—are the highest in our history. So what you have are a lot of companies not making money, and as a result they are not paying taxes.

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On the other hand, the government has gone to great pains to state that it has not increased any personal income taxes, so it cannot be that personal income taxes are going up because the government has raised taxes. Personal income taxes must be going up because people are making more money. How do you respond to that? I am just throwing that out as a supposition. I would like to hear your comments.

Mr Coté: The point we were trying to make, Mr Kwinter, with that particular paragraph was that there seems to us, by this statistical evidence that we relate, to be a shift to the individual in the responsibility for paying for services. That was the point we were trying to make.

Mr Villeneuve: Just to follow up, you would agree that your assumption is not quite correct. The statistical data would indicate that personal income tax has gone up, but effectively personal income has gone up and therefore income tax. Would that be right?

Mr Coté: No, I do not think we could draw that conclusion necessarily. I note that today's paper states that the number of unemployed has decreased by 1%, but the pay-out has gone up by about 33%. One reason is that obviously those who are on unemployment benefits are receiving greater benefits. I think a like conclusion can be drawn here, that higher taxes are being paid by individuals who are perhaps paying higher taxes because they are making more, yes, but also perhaps paying more because the rate has increased.

Mr Villeneuve: I gather your organization of Catholic teachers is agreeable that we increase and effectively double the provincial debt in the next four years. You have put a cautionary document there. You are aware that Ontario Hydro has \$30 billion of deficit and you are aware that the Workers' Compensation Board has a \$10-billion unfunded liability. That all has to be carried by Ontarians, and if we have a slight shortfall in the gross income at the provincial level, our total debt will have more than doubled in four years.

Could you comment on that in light of the fact that all Ontarians must carry the federal debt as residents of Canada. We have to carry the provincial debt as residents of the province. We have to carry the Ontario Hydro debt with a 40% increase on the doorstep. There is workers' compensation and all the rest of it. Do you feel this sends out a right signal to business people to invest or to set up shop here in Ontario?

Mr Coté: I think the message that is being sent out, Mr Villeneuve, is that as much as possible this government is going to try to put the interests of people first. None of us like having a mortgage. Your question really boils down, I think, to how high is too high a debt. We say at the outset we are not financial experts. We do not know. We have read what some of the experts are saying. We are just thankful at this time that the government has chosen, from the three alternatives that we see the Treasurer had—to increase taxes, to make massive cuts or to have a deficit—the latter alternative, because that is the least painful to the people, in our opinion. We hope we will be able to weather this recession and then in better times pay down our debt.

Mr Villeneuve: As you are aware, the public service in Ontario got a 6.8% increase across the board. I was a member of the select committee on education of several years ago and we all have to be aware that the cost of education is 80%-plus in salaries. It is very difficult to cut in that area because you have a very good union, and I commend you for that. But the 6.8% increase for all civil servants in Ontario? I represent many farmers who have taken a 25% cut. I represent many business people who are hanging on by their fingernails and may not continue to hang on. Are you supportive of the 6.8% across-the-board increase that provincial civil servants got?

Mr Coté: I definitely would not take any exception with a negotiated agreement that any union has made. I think that is their business and I think the process of collective negotiating is a very viable, fair way of settling what individuals should be paid.

There are two points I would make more as a personal thought on this than as an association position. In my own

personal opinion, the more people we can get to work, the better off we are. I referred earlier to those unemployment figures that are out today. It seems to me to be a negative way of handling things if we have to pay people who are not working, if it is possible to create jobs for those people to get them working, off the welfare and unemployment rolls, and contributing to society by paying their taxes on the amount of money they earn. That is one thing.

The other thing I would like to leave as a personal suggestion to the committee is to recommend anything you could that would create more research and development and stimulate that end of universities and business, the research and development end of our economy, which I think needs a real shot in the arm. People I have talked to indicate that those kinds of transfers have been flat-lined and have been cut, in some cases. I think that is being very shortsighted, because if we are going to have a future in the world competitive economy and so on, the global economy, then we have to put more into research and development. Anything that could increase that and produce more jobs in our society I think would be of benefit.

Mr Villeneuve: And we need employers.

Mr Coté: We need employers, yes.

The Chair: Thank you, Mr Coté and your colleagues, for your presentation.

1030

CANADIAN TOBACCO MANUFACTURERS' COUNCIL

The Chair: The next presenter is from the Canadian Tobacco Manufacturers' Council, Mr Mark Resnick, and you have a colleague with you. Welcome to the committee.

Mr Villeneuve: It is a no-smoking committee.

The Chair: I would love if we had a cigarette out. Maybe I will have to talk to him later out in the hallway. I am sorry; I will get back on track here. You have one half-hour for your presentation.

Mr Resnick: My name is Mark Resnick. I manage government relations for CTMC. My colleague is Mr Jacques LaRivière, who is the vice-president of public affairs. I would like to begin by thanking you, first of all, and the members of your committee for the opportunity to appear today to comment on the budget. As suggested, I propose to begin with a summary of our views concerning the budget and then naturally we would be prepared to answer any questions you might have.

You will not be surprised to learn that we vigorously oppose the increase of more than \$3 a carton in Ontario tobacco tax. Taken together with an even larger increase in federal taxes on tobacco announced earlier this spring, Ontario tobacco consumers have been hit with a tax increase of \$10 a carton in 1991 alone. Indeed, since April 1, 1988, Ontario taxes have increased on cigarettes by a whopping 127% compared with an increase of approximately 18% in the Ontario CPI during the same period.

The increases have obliterated Ontario's long-standing status as one of the nation's most stable tax jurisdictions, notwithstanding the fact that the province has been the principal economic beneficiary of the Canadian tobacco

industry. Over the course of the past decade, the average retail price of 25 cigarettes in Ontario has risen from approximately \$1.25 to \$6.25, fuelled in large measure by federal and provincial tax hikes. The consequences of these increases in terms of the direct economic impact on the industry and the provincial economy have been entirely negative. Jobs have been lost, manufacturing plants and farms have been shut down, and the illicit trade in tobacco products has emerged as a serious criminal byproduct.

Five years ago there were three manufacturing plants in this province; today there is only one. A decade ago the manufacturing sector in Ontario employed 2,665 persons; today it is down to approximately 1,500. Ten years ago there were 2,500 tobacco growers generating one of the province's largest farm cash crops; today there are barely 1,200. I note that a couple of you represent tobacco farm constituencies in Ontario, and you would be as aware of those figures as we are.

Between 1981 and the beginning of this year, shipments of our members' manufactured cigarettes to Ontario wholesalers declined by over 21%. Sales of fine-cut tobacco—tobacco for roll-your-own cigarettes—during the same period declined by nearly 19%. As a consequence, employment in the growing, processing and manufacturing sectors has declined by more than 50% of what it was at the beginning of the last decade. A study prepared by Peat Marwick, Stevenson and Kellog estimates that approximately 2,000 person-years of employment in the growing, processing, manufacturing and supplier sectors have been lost in Ontario alone during the last 10 years.

Since the beginning of this year, and taking into account the combined federal and Ontario tax increases announced this spring, domestic shipments to Canadian wholesalers have declined by approximately 11.5%. As a result, it is entirely predictable that there will be further job losses and income declines—the very kinds of impacts which the government said its budget was dedicated to ameliorating.

Notwithstanding declines in consumption and employment, the tobacco industry continues to make a substantial contribution to the Ontario economy.

In 1990, total Ontario consumer spending on tobacco products was approximately \$3.2 billion. Approximately one third of that amount, \$1.1 billion, accrued directly to the Treasury in Ontario. The \$3.2 billion in expenditures on tobacco products also generated approximately 18,800 person-years of direct employment in the province. While we recognize the downward trend in consumption of tobacco products is at least partially attributable to lifestyle changes and legislative measures at the federal, provincial and municipal levels, we are also convinced that radically higher tax rates are a principal factor in the softening of the Ontario tobacco market.

The Canadian tobacco industry does not dispute the notion that its products should be taxed at a fair and proportionate rate. As good corporate citizens, we recognize that expenditure controls and revenue growth are essential elements in reducing the fiscal pressure which has been building on the Ontario government for some time. Having

said that, however, consumers in Ontario are paying out roughly 75 cents of tax for every tobacco dollar they spend in the province. We submit that this is grossly unfair, not to mention inherently regressive.

Given the disproportionately high tax component on a package of cigarettes in Ontario, it is not surprising that in recent years there has been a quantum leap in the illicit trade of tobacco products. The scope of this activity is well documented in another Peat Marwick report which suggests that organized smuggling—not counting the more amateurish operations that are sprouting up at an increasing rate and not counting cross-border shopping by individuals—now amounts to some \$500 million a year with a resulting tax loss to federal and provincial governments of up to \$370 million a year. It is worth noting that this study was carried out prior to this year's budget increases, which will no doubt lead to an increase in this illegal activity.

When Ontario consumers can enter the nearest US border state and buy cigarettes with all US taxes paid and even Canadian duty paid, at barely half the price of tax-paid, Canadian-manufactured product, it is little wonder that cross-border shopping has proliferated dramatically. Only this week, Statistics Canada reports that same-day visits by Canadian citizens to the US increased in June of this year by 17.5% while overnight trips increased by 27.1% when compared to June 1990. It has been reported that the Ontario Ministry of Industry, Trade and Technology has estimated a loss of retail sales in Ontario in 1991 of \$2.2 billion. There is no doubt that tobacco products constitute a substantial portion of retail sales leakage to the United States.

During the last two years, CTMC member companies have co-operated with federal and Ontario governments by instituting, at their own cost, elaborate and expensive product marking programs which are designed to frustrate the illicit tobacco trade. It is our sincere hope that this, combined with intensified enforcement procedures in both jurisdictions, will contribute to a marked reduction of black market activity. But marking programs are akin to treating the symptom rather than the disease. The essential problem is excessively high tax rates which invite this sort of activity. Smuggling of tobacco takes place, and will continue to be a problem, as long as large profits are available to unscrupulous individuals who sell cigarettes on which no tax has been paid at prices well below the legitimate, tax-paid, retail price. In so far as the tobacco industry is concerned, there is no doubt that smuggling of tobacco is a tax-driven problem.

In a survey conducted by Canadian Facts for CTMC during the week of June 24 of this year, 44% of Canadians indicated that they wanted tobacco taxes rolled back. The survey also revealed that 27% of Canadians feel that tobacco taxes should remain at current levels, and only 22% support further increases.

We have noted that the Liberal and Conservative caucuses in the Legislature have called on the government to rescind the tobacco tax increases announced by the government in its April budget. CTMC obviously supports that view and calls on the government to act accordingly.

That is the end of our formal presentation and we would be happy to answer any questions you may have.

Mr Kwinter: Mr Resnick, we had an earlier presentation by the tobacco growers and I voiced some of the concerns I had, and I sympathize with your problem. I sympathize with an industry that on the one hand, is considered legal and employs people and contributes to the economy; on the other hand, we have a government—I am not talking about this government specifically, all governments—in Ontario that extracts over \$1 billion a year in taxes and feels that is fine. As I said, it leaves you sort of twisting in the wind. Either outlaw the product, or, if you legalize it, let you operate like a business and make a fair return on your investment.

I am really interested in hearing from you about the present state of illicit cigarettes. Have you ever been able to figure out where these cigarettes come from? I am talking about Canadian cigarettes that are brought back into Ontario from outside jurisdictions. How does that work? Why can that not be controlled?

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Mr Resnick: You are right. A substantial portion of the smuggled product is Canadian-manufactured, destined in some cases for export markets and in some cases for ship chandlers and the like. Depending on which markets the product is destined for, there are different means for bringing it back.

It is no secret that near Cornwall and Kingston, in that area of the province, there are Indian reservations that straddle the border. Under the Indian Act natives are able to purchase tobacco tax free. They do so in large quantities, and somehow or other it ends up coming back into the illicit market on this side of the border. There are elaborate retail networks, non-legitimate networks, that are set up to distribute and sell the product.

Products that our member companies manufacture that are destined for the legitimate export and duty-free markets are now marked. We voluntarily undertook to mark that product specifically as being designated not for sale in Canada in the hope that law enforcement officials in Ontario and Canada would be able to identify the product and apprehend the perpetrators of the illegal act.

There have been, it appears, more prosecutions recently but the volume of trade has increased to the extent that it is virtually impossible for law enforcement officials to totally control it. The stuff is coming across in boats at night. It is coming across border points where it appears as if the customs officials who are manning those border points are intimidated. There are jurisdictional problems between customs and excise on the one hand, who have control of the border points, and the RCMP, who have control of the points between the border points. They are undermanned. They simply do not have the human resources for surveillance of all that territory. So the stuff leaks in in very large quantities.

Mr Kwinter: What is your estimate? In your brief you say the Peat Marwick study was before this latest tax increase. What is your estimate of what it is now?

Mr Resnick: I could not even begin to estimate it.

Mr LaRivière: It was estimated at 10 million cartons.

Mr Kwinter: You would assume it is considerably higher now, though. The higher the tax, the more incentive there is to bring in more of it.

Mr Resnick: Sure, absolutely. The discount is obviously greater when you add \$10 a carton in tax component. That increases the incentive exponentially to sell the product at a reduced rate. People are not shy at all about purchasing it. We participated in an omnibus survey that the Angus Reid organization carried out a couple of months ago and the results on this issue were quite interesting. There is no question that people put the finger on tax differentials as the reason for the purchase of illicit product and they are not shy about doing it, and they acknowledge that they are not shy about doing it.

Mr Morin: I have a question on statistics. You mentioned that there is some smuggling being done and a black market, I would call it I guess, from the Indian reserve. Let's take Akwesasne for instance. The population is about 9,000. I used to be a smoker. The average smoker would smoke a pack of cigarettes a day. Not everyone in Akwesasne smokes. Would you have any figures, any statistics on the number of cartons of cigarettes that you sell in Akwesasne on a monthly basis?

Mr Villeneuve: It is a 25 pack per day, per person.

Mr B. Ward: Is that what it is?

Mr Resnick: There is a quota system in place, set up by the Ministry of Revenue in Ontario, that permits 10 packages per week per person on the reserve, and I am assuming the quota is filled every week.

Mr Morin: Okay. If you know for a fact that there is smuggling, a black market, could not the tobacco companies reduce it and say, "Okay, we'll give you less cigarettes"? Do you know what I am saying?

Mr Resnick: Under the law, our member companies are not in a position to refuse to sell to people who have the right to purchase.

Mr Morin: In other words, what you are saying is each company, then, would have the right to sell 10 cartons a week—

Mr Resnick: To registered wholesalers.

Mr Morin: —to each individual. If you have 10 tobacco companies, it means 100 packs a week.

You said 44% of Canadians were not in favour of the tobacco tax and want to reduce that.

Mr Resnick: To roll it back.

Mr Morin: What is the percentage of Canadians who smoke?

Mr Resnick: Approximately 31% or 32% of the adult population.

Mr Villeneuve: Representing a riding that is very close to Akwesasne and surrounds the city of Cornwall, the high tax federally and provincially has effectively turned quite a few of my constituents into criminals. There have been vehicles and boats impounded by the RCMP, and I personally believe there is a lot of gouging at both levels of government, particularly when you compare the \$1.1 billion of provincial revenue to exactly 50% which

goes to support agriculture in total, including civil service salaries. It does not quite make sense, and we are going through some times where agriculture is in very dire straits.

I believe two years ago the Provincial Auditor saw about \$100 million of counterfeit or leakage of potential government income. You now consider that to be \$370 million a year based on last year's stats at the provincial and federal level.

Mr Resnick: Yes.

Mr Villeneuve: I would say you are quite conservative in your estimate.

Mr Resnick: As I say, that estimate was made prior to this year's budget season and federal and provincial increases. I also think that notwithstanding the expertise of the forensic unit at Peat Marwick, it is pretty difficult to estimate, with any greater degree of precision than they have already applied, what the number would be. But that is a pretty big number in and of itself.

Mr Villeneuve: I find it strange that this government uses the word "profit" as a kind of a dirty word, and yet this is one of the best milk cows it has. If they saw certain industries making this sort of return and continued taxing—it makes me wonder. The biggest catalyst bringing cross-border shoppers is fuel; that is number one; number two is cigarettes; number three is alcohol. There is no doubt about it when there is a tax-free state situated between the US and Canada, as we have in Akwesasne and a number of other areas; it compounds the problem in this area. At this stage of the game, I think you either declare tobacco illegal or at least make it affordable. Could you comment on that?

Mr Resnick: Well, so long as it is legal—

Mr Villeneuve: It is not affordable.

Mr Resnick: I do not think frankly that in 1991 governments can even begin to contemplate the consequences, either economically or socially, of declaring tobacco an illegal product. Then obviously I agree with you. The tax increases, somebody has to put a brake on them. With respect, it is not just the government of Ontario or the federal government that has been increasing taxes on our products.

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Mr Villeneuve: I realize that.

Mr Resnick: The fact of the matter is that governments led by one of the three major political parties in various jurisdictions in this country have been doing the same thing for a number of years. It is not just a recent phenomenon and it is not just exclusive to Ontario.

Mr Villeneuve: Finally, I believe you have a questionnaire or a lobby-type pamphlet or return in all packs of cigarettes, asking users to submit their concerns as to the very high cost of the product. How has that helped you, or how have your customers reacted to that? I realize one of my former colleagues, Mr Gillies, now works for the industry and he has turned into a smoker.

Mr Resnick: I do not know if he turned into a smoker as a consequence. He does not work for the industry, by

the way. He works for an organization that represents consumers. Jacques, maybe you can comment on the tax campaign.

Mr LaRivière: As you know, the protest form was included in the slide portion or the interior portion of a pack of 25. A number of them were imprinted as part of the regular production run back in May. They then made their way to wholesale and then retail. The quick answer to your question is that at last report—that was the latter part of July—the federal Prime Minister's office had counted 3.4 million of these forms.

Mr Villeneuve: So there are some unhappy users of tobacco products out there.

Mr LaRivière: It would appear.

Mr Frankford: On page 3, you say, "We recognize that the downward trend in consumption of tobacco products is at least partially attributable to lifestyle changes and legislative measures." Would you not agree that it is more than that, that it is a public policy and a public health approach to raise prices and to discourage smoking?

Mr Resnick: I think it is quite clear and governments, in many instances, have been explicit about it. Government in various jurisdictions have indicated that their tax policies and smoking in the workplace legislation and so on are designed as a public health policy. Our contention is that the tax policy is an inappropriate means of dealing with what is referred to as a health issue.

One of the principal reasons for that is that by using consumption taxes, what you are doing in effect is penalizing people who are on fixed incomes, who are poor, who are unemployed, who can least afford to pay for the product, the right to enjoy something that they enjoy doing and have the right to do legally in this country.

Mr Frankford: But it is a discretionary product, is it not?

Mr Resnick: Of course it is.

Mr Frankford: I really do not understand your difficulty with a public health approach through taxation.

Mr Resnick: I just explained it.

Ms M. Ward: I would like to ask you to give me some more information about the structure of your industry. Last week, we heard from the growers when we were in Brantford, but my knowledge of it is that there is a gap between the consumer and the growers. You speak of 18,800 person-years of employment last year, but are there other businesses in between the large tobacco companies and the growers? Perhaps you could just give me briefly the structure of the industry in terms of the types of employment and businesses involved.

Mr LaRivière: I think perhaps the best way is to describe the chain.

Ms M. Ward: That is precisely what I mean.

Mr LaRivière: Let's work back from the consumer through the retail.

Ms M. Ward: The retailer: I understand all that part, having been involved in that.

Mr LaRivière: Wholesale?

Ms M. Ward: You could touch on it briefly.

Mr LaRivière: Let's work it the other way then. Let's start with the raw material, the grower. It goes from there to the processing plants to the manufacturing plants where the product is manufactured and sold to wholesalers.

Ms M. Ward: Could I ask you about the processing plants? Are those owned by the major companies or are those independent businesses or does it vary?

Mr LaRivière: Virtually all of them are owned by the manufacturing companies.

Ms M. Ward: So we do not have a large number of small businesses in between the grower—

Mr LaRivière: No.

Ms M. Ward: That was what I wanted to get an understanding of.

Mr LaRivière: Then from manufacturing to wholesaling.

Mr B. Ward: I want to focus on the taxation. The Conservative Party in Ottawa in the last budget implemented a whopping \$7 a carton, 70% of the overall tax increase when you look at Ontario. You said \$10 a carton and they implemented a \$7-a-carton increase. Looking back in the past, in Ontario, when was the last time the taxes on cigarettes were not increased?

Mr Resnick: Actually, I will just consult on this but there was only a 5% increase, if memory serves me correctly.

Mr Villeneuve: Frank Miller's budget.

Mr B. Ward: Was it?

Mr Resnick: No.

Mr Villeneuve: Was there another one—

Mr Resnick: Not increased?

Mr B. Ward: Yes, not increased. Can you recall?

Mr LaRivière: There was a string of about four years, 1982 through 1986, where it was either at inflation, at the level of CPI, or less.

Mr Resnick: In 1989, there was a 5% increase, which was equal to the CPI.

Mr B. Ward: The taxes have always been increased, though, every budget.

Mr Resnick: Part of the problem is that if there is a federal increase, Ontario automatically gets a bump because of PST. That is included in our calculation.

Mr B. Ward: So taxes on cigarettes have always been increased?

Mr Resnick: In one way or another, over the course of the last 10 years, the curve has been going like this.

Mr LaRivière: My comment would be that at the beginning of the 1980s, it was closer to the level of inflation.

Mr B. Ward: Provincially from 1985 to 1990, because you mentioned it has increased 127%?

Mr LaRivière: That is from 1988 to 1991.

Mr Resnick: As I recall, in 1989, there was no increase in provincial tobacco taxes in Ontario.

Mr B. Ward: But from 1988 to 1991—we, the provincial government, raised it a penny a cigarette.

Mr Villeneuve: That does not sound like much, but it is 25 cents a package.

Mr B. Ward: That is what we raised it.

Mr LaRivière: No, it was 1.67 cents or 37 cents a package.

Mr B. Ward: If they did not raise it in 1989, where did all the other taxes come from?

Mr Resnick: There is federal excise tax, federal excise duty. There was the manufacturers' sales tax and now there is the GST. All that goes into the tax component.

The Chair: I am sorry, but time has run out. I would like to thank you for your presentation before this committee.

1100

SOCIAL PLANNING COUNCIL OF OTTAWA-CARLETON

The Chair: The next group is the Social Planning Council of Ottawa-Carleton. You have one half-hour for your presentation.

Ms Nelson: I am Margaret Nelson, president of the Social Planning Council of Ottawa-Carleton. James Zamprelli is executive director of the social planning council. Scott Evans is one of our social policy consultants at the social planning council.

Thank you for this opportunity. Because of the role the social planning council plays in monitoring social and economic conditions and advocating for the disadvantaged in Ottawa-Carleton, it is important that we should be here today to respond to the 1991 Ontario budget.

I will give you a little background on the social planning council, or the SPC as we call it. It was founded in 1928. It is a private non-profit organization governed by a board of directors who are nominated and elected by the membership. The membership presently includes 246 individuals who qualify through their active participation in the work of the council in its forums, task forces and committees, plus representatives of staff, volunteers and clients of 109 private non-profit social service agencies within the regional municipality of Ottawa-Carleton.

We have a full-time staff of 22 and an annual budget of \$1.1 million. Our primary funding sources are the United Way of Ottawa-Carleton and the regional municipality of Ottawa-Carleton, with some additional funding from private foundations and from the province of Ontario for specific activities and projects.

The roles played by the social planning council include promoting co-ordination in the development of social services, conducting research regarding social and economic needs in social services, informing its membership and the public at large of issues affecting social and economic wellbeing, and advocating for improvements in the quality of social services and for public policy which contribute to the quality of life in our communities.

The council advises the United Way of Ottawa-Carleton, the regional municipality of Ottawa-Carleton, other municipalities and the province of Ontario on the allocation of resources to social services in this region.

With its long tradition of monitoring social and economic conditions and advocating for the disadvantaged,

the social planning council has historically supported stimulative economic policies in times of economic hardship. At this time we applaud the Ontario government for its courage in bringing in a budget which focuses on stimulating a recovery from the recession, rather than following the lead of the federal government and other provincial governments, which have concentrated on reducing the deficit, apparently without regard to the hardship this has caused to our most vulnerable citizens.

This is a very difficult time for Ontario, which has been hardest hit of all the Canadian provinces in this recession. In the year prior to the budget, employment declined by approximately 250,000 jobs, while bankruptcies were up 73%. These statistics translate into economic hardship and distress for alarming numbers of Ontario citizens.

Social assistance costs have increased by 40%, and this at a time when transfer payments from the federal government to this province have been reduced by \$1.6 billion. The government's options were few. In our opinion, cutting back on social services at a time of increased need would have meant abrogating responsibility for those citizens most seriously hit by the recession. This option would have been unacceptable. Increasing taxes to low- and middle-income Canadians would have been unfair and would have compounded the effect of the recession. We believe that a budget designed to support positive economic change while ensuring that the costs of adjustment are fairly shared was the right choice.

In general, we are encouraged by those measures in the budget which promise to bring some direct relief to the citizens of Ottawa-Carleton who have been hardest hit by the recession, while at the same time reducing the burden on the municipal government and stimulating local business through increased housing construction, increased capital spending on public facilities and greater spending power placed in the hands of our low-income citizens.

In responding to the budget, however, our main emphasis is on the extent to which it will alleviate the problems of the poor and the marginalized for whom we advocate and with whom our member agencies work on a daily basis. From this point of view, we have both praise and criticism for certain aspects of the 1991 budget. Now I will ask Scott Evans to continue to give more details on our response to specific aspects of the budget.

Mr Evans: The Ontario government has opted for a moderate course by introducing a mildly stimulative budget. While refusing to cut programs, there has not been a significant expansion of services in general, although some individual programs have been enriched. This means that in the short term the province must incur a deficit because of the current recession and the impact of federal government cuts in shared-cost programs, such as the Canada assistance plan and the established programs financing.

Moreover, the impact of a more restrictive unemployment insurance system, coupled with double-digit unemployment, has meant that Ontario's social assistance costs, already inflated due to the recession, have increased even more. One resident in ten in Ontario is now dependent on social assistance, a ratio mirrored in the Ottawa-Carleton region. While acknowledging that governments can

streamline their activities and get more value for their investments, the council maintains that transferring the cost of a recession and intergovernmental bickering on to the backs of those most dependent on our social and health programs is fundamentally unacceptable and immoral.

Canada, and Ontario in particular, is in the process of retooling and restructuring its economy. With the economic perspective increasingly global in focus, this demands new investment in our labour force, technology, basic infrastructure and approach to work. Those who argue for massive expenditure reductions have faith in the magical ability of markets to rectify imbalances. The council does not share this faith and supports the government's pragmatic efforts to develop the province's human resources.

The \$4.3-billion investment to revitalize public infrastructure and create employment is viewed as an appropriate policy that avoids generating further recessionary activity by supporting productive and necessary economic activities. Moreover, increased financing for social and non-profit housing, hardly profligate in nature, will create jobs and provide lower-income individuals and families with much-needed accommodation.

The creation of the Ontario Training and Adjustment Board is a critical first step of a needed strategy to address the dislocation caused by economic restructuring. The council lauds the \$32.5-million labour adjustment initiative. The proposed employee wage protection program will minimize the personal cost to displaced workers in our changing economic climate. We urge the government to enact this legislation expeditiously. The employees of the insolvent Taggart group of companies, located in Perth, face loss of wages and severance pay. Had it existed, the employee wage protection program would have provided some protection for the unemployed Taggart workers.

It is premature to comment on the \$700-million anti-recession program because the nature of the capital works is as yet unspecified. The government cannot expect a successful restructuring of the economy without careful consideration of the impact of particular projects on economic competitiveness. The targeting of the ministries of Colleges and Universities, Natural Resources and Transportation suggest some consideration of the long-term economic impact. However, specific reference to increased highway construction and the \$7 million to augment the capacity of youth employment counselling centres does not provide sufficient evidence of how these programs will have a direct, positive effect on the restructuring of the economy.

One of the more encouraging signs in the current budget is the commitment to incorporate business and labour in government restructuring strategies, and to promote collaboration between business and labour. The fragmented and adversarial nature of Canadian business and labour, compared to our European counterparts, makes this task extremely difficult. Both the importance and difficulty of this task is underscored in research by individuals such as Bill Coleman at McMaster University. His work on the interest group structure of the business and manufacturing community and construction indicates that co-ordination and unity in industrial or sectoral strategies requires

important changes in the way in which business represents itself. We support the government in its efforts to develop forums and councils capable of unifying business and labour around sectoral strategies.

The government has tried to increase the incomes of disadvantaged groups through increased funding for pay equity programs. It has also committed funds for development of new employment equity legislation in consultation with the interested groups. We look forward to participating in that consultative process and urge the government to move forward quickly.

Pay equity and employment equity programs generally affect public sector workers to a far greater extent than private sector employees. For this reason, we are concerned about the extent to which pay equity and employment equity legislation will benefit workers in the private sector. This is especially the case for women who are concentrated in smaller enterprises, which are often exempted from pay and employment equity legislation.

In its election platform the NDP promised to increase the minimum wage to at least 50% of the average industrial wage—about \$7.20 an hour in 1990 dollars. Since taking office in September 1990, the NDP government has increased the minimum wage from \$5 an hour to \$5.40 an hour. Recently it announced that on November 1, 1991 the minimum wage will rise to \$6 an hour. While the increase is welcomed, it still falls significantly short of the NDP's stated goal.

To understand the effect of the minimum wage increases, let me give you one example. One person working a 40-hour week would have to earn \$6.58 an hour to reach the 1990 poverty line. If the 1991 poverty line is estimated based on a very conservative 5% increase, the hourly wage necessary to meet the poverty line is \$6.91.

We can perhaps talk about this in more detail, but let it be said that raising the minimum wage is not necessarily going to have negative ramifications on business, despite business rhetoric. If one looks at the multiplier effect of any kind of income supplement that is directed to the lowest income strata of the economy, you have almost a 100% multiplier effect. In other words, these individuals are not going to invest in bonds and treasury bills or savings, they are going to have to spend their income directly on consumer goods. So this gets rapidly translated into the economy.

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Mr Zamprelli: I am going to continue to walk through some other elements of our presentation which address some major initiatives that were contained in the budget, like social assistance reform, or at least the indications in the budget regarding the government's commitment to proceed vigorously with social assistance reform.

The commitment of \$215 million to social assistance reforms demonstrates a willingness, albeit not as vigorous as anticipated, to pursue the actions outlined in Back on Track, which was the recent report of the Advisory Group on New Social Assistance Legislation. This commitment of \$215 million is only half of the estimated \$450 million

the reform package would require, which was put forward in the Back on Track report.

We appreciate that the swelling welfare rolls resulting from the recession and such things as amendments to federal unemployment insurance legislation have placed enormous financial pressure on provincial and municipal governments. We may add as well that the recent Supreme Court decision is not going to help that situation. This has threatened more rapid implementation of welfare reforms. However, we submit it would be a grave error for the government to retreat in any way from its previously stated commitment to implementing fundamental social assistance reforms as outlined in the landmark 1988 report, *Transitions*.

Reform will require significant investments in people, as is the general philosophy of this government. However, we feel there is no alternative and this budget certainly reflects an investment in people. We are already spending millions on a welfare system that is hopelessly flawed. This is ably documented in the Back on Track report. We need nothing less than comprehensive new legislation that reflects a sense of compassion and a belief in the ability of recipients to integrate into mainstream society, both socially and economically.

In the short term, we expect the government to begin implementing the remaining actions identified in Back on Track. In addition, increases to welfare rates must be forthcoming. While improvements have been made over the past few years, most recipients are still unfortunately living below the poverty line. Furthermore, after its consultative process, the government must act quickly to restructure provincial-municipal financial arrangements in an equitable manner, especially—and this is crucial—those affecting social assistance.

Municipalities cannot afford to wait for more studies. Action is necessary and required immediately. Social assistance case loads continue to rise, with the resulting dramatic impact on municipal budgets and the delivery of services. We have included in the presentation a graph that shows the increase in social assistance case loads in our region between June 1990 and July 1991, which is rather dramatic.

New social assistance legislation which includes an operative definition of "adequacy"—

The Chair: Could I just interrupt you for a minute? On that particular graph you have there, do you have a presentation written up? Okay. It would be a lot easier for the members to follow on the graph you are referring to.

Mr Zamprelli: I am sorry. I thought we had distributed that. The graph is on page 6. This is data we have recently been given by the regional municipality of Ottawa-Carleton. We are seeing, in terms of thousands of case loads, an increase in that period, which is approximately a 12-month period, from approximately 16,000 to an estimated 24,000 cases, an over 40% increase. The point is that there is a shared responsibility, municipal and provincial, for support to the social assistance system, but what we are saying, as has been said in Back on Track, is

that the issue of cost-sharing and respective responsibilities needs serious re-evaluation.

New social assistance legislation which includes an operative definition of "adequacy" must be introduced in 1992 if the momentum for change is to be kept alive. We also urge the government to continue its discussions with the federal and provincial governments around a national children's benefit that would take children, who comprise a whopping 42% of Ontario's welfare beneficiaries, off social assistance and put them on a program of support that is less demeaning and derogatory, as unfortunately, social assistance seems to be associated with that. It is simply unacceptable that so many parents must attempt to raise their children under conditions associated with the welfare system.

We have a few additional comments and qualifications on fair taxation moving forward towards a fairer taxation system and on the issue of child care and programs, policies and resources to create an adequate child care system, which we see as integral to socioeconomic policy and programming.

The government's budget address made reference to the Fair Tax Commission, which was set up to conduct a complete review of the tax system in Ontario, noting that directions were given to speed up the consultations on a minimum corporate tax and a land speculation tax. We concur that there is some urgency to bring in taxation reforms in these two areas, but we would like to add another item to the fast-track list. We believe the working poor in Ontario, and throughout Canada for that matter, bear an excessive taxation burden. Although the budget did introduce a \$50 million tax cut to decrease the number of low-income workers on the tax rolls, there are still in our opinion too many poor or working poor people who must pay provincial income taxes. We believe the Fair Tax Commission must make taxation relief for low-income residents a definite priority.

In terms of child care, child care was not highlighted as much as we would have expected or would have wanted to see in the budget, despite the fact that there is an unquestioned need for an expansion of child care spaces in general, and specifically subsidized spaces. Since the budget came down last April, there actually has been an increased allotment of spaces, including subsidized spaces, within our region. There has also been a commitment to including child care space in the new schools that are built in Ontario. These initiatives are encouraging, but the demand for licensed quality child care is far greater than the supply. Child care must be viewed as a critical component of child development and labour market strategies, not merely as an isolated social service issue. Quality child care can be an integral factor in the development of healthy children capable of achieving their individual potential. This has been confirmed in government studies such as *Factors Related to Quality in Child Care and Better Beginnings, Better Futures*.

In conclusion, we would like to reiterate that on the whole the Social Planning Council of Ottawa-Carleton supports the course set by this government. Unlike the naysayers, we do not conclude that the budget is irresponsible or misguided. On

the contrary, we maintain that to do anything less than what was promised in the budget or in terms of the directions in that budget would be irresponsible and economically disastrous for the province. We exhort the government to fulfil its past promises to enact substantive social and economic reform.

We also have, in closing, an additional recommendation. In the future we feel it would be far more fruitful and productive to hold public hearings on the provincial budget prior to rather than following the tabling of the document.

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The Chair: Thank you for your presentation. I would just like to make one comment. We have the three subcommittee members. "In the future we feel it would be far more fruitful and productive to hold public hearings on the provincial budget prior to rather than following." We did hold four weeks of pre-budget consultation in Toronto and we were willing to travel in the province to hear groups on the pre-budget consultation. It is not that we have not done it in years past also. I just want to clarify that so we do not have each one of the members here say, "That is incorrect." We did hold the hearings in Toronto and it was four weeks or so.

Mr Zamprelli: Okay.

Mr Sterling: The practice of holding hearings regarding the provincial budget prior to it was actually introduced by the former Liberal government and has been going on for a period of years. Unfortunately it does not get back to Ottawa often. That is probably why you did not hear about it.

I am interested in the social planning council. When you come forward with a statement like this, how do you gain approval of the council before you bring it to the committee?

Ms Nelson: We do not have a specific process for going to all our membership to ask whether they approve of our statements. They are based on our policies, which have been long-standing ones of speaking out for the disadvantaged.

Mr Sterling: So this does not necessarily reflect the actual membership, then.

Ms Nelson: When you talk about clients, board members of community agencies and staff of community agencies, I think we can count on them to be supportive of what we are saying, yes.

Mr Sterling: Okay. The other part we have heard time and time again, and we heard again from you, was the problem with federal cutbacks in terms of the funding they have given for social programs. As you know, the federal government is operating at a deficit as well. We had a federal member of Parliament, Garth Turner, a Conservative, come in and talk about the options the federal government has. Their options have been limited now because their deficit has grown to such a state that about a third of the revenue they get in the federal coffers is going to service the debt.

When groups like yours complain about the drop in support, are you suggesting that the federal government

either have a larger deficit or increase taxes? I do not think you can come in and say, "They should transfer more money to the province." What should they do?

Mr Evans: First of all, I think this opens up a whole can of worms. I may ask you, where is the Nielsen report, where have all the efforts by the federal government to cut costs and to focus its activities on reducing the deficit been, then? The deficit has not been reduced significantly. I do not think we are arguing necessarily that taxes have to be increased, although there are times when taxes do have to be increased. I think the Conservatives have already agreed to that with their GST. We are not here to discuss the federal government.

I think one thing which has to be stated right here is that it is the obligation of the Ontario government, given the size of Ontario as a province and given its impact in provincial affairs throughout the country, to lead the other provinces in renegotiating fiscal relationships with the federal government. The federal government also has to re-think its priorities with respect to social programs. There have been a number of instances in the last eight years where they have had to backtrack on trying to roll back deindexation clawbacks and they have had to roll back occasionally with respect to seniors.

These things have to be put on the table and discussed. The Ontario government has to be one of the leaders in making sure that this is on the table and that things are refinanced or discussed as to how they are going to be financed. We have to discuss what our priorities are. If you look at the Nielsen report and the kinds of problems there are in government, there is recognition that things have to be restructured, no doubt about it. But that does not mean the provinces should roll over and play dead on this issue of federal financing and shared-cost programs. They have to come forward and renegotiate their position.

The recent Canada Assistance Plan ruling of the Supreme Court means that this is really a political decision, that this has to be dealt with by the politicians. It cannot be dealt with by the courts; it cannot be dealt with by the bureaucrats. It is the obligation of the Ontario government to say what its priorities are and to put a foot forward and lead the other provinces in renegotiating the fiscal relationships and shared-cost programs between the provinces and the federal government.

The Chair: There is one thing I would like to say. For one day it appeared in every daily in all of Ontario, so it did not matter whether you lived in the north or in Ottawa or Cornwall; everyone had the opportunity to put in an application on the pre-budget consultation. That is just a clarification. There was notification throughout the province.

Mr Christopherson: I spent a number of years on the board of the Social Planning and Research Council of Hamilton and District, so I have enormous respect and enthusiasm for the work you do. Thank you for your contribution to our community and society, because I think you play a significant role, as do all the social planning and research councils.

What I would like to ask you is a question I have asked a number of groups that have come in. Some business

groups in particular—there have been some individuals, but basically business groups—have come in and said that the problem with this government is that we did not have the political will to do what was necessary to put the province on a strong economic footing. When asked what they mean by that and how they would achieve it, some have suggested that there has to be a relatively arbitrary cut of between 10% and 20% of all expenditures. They have said it is necessary to bite the bullet to give us the kind of economic strength we need. Their argument is that we will then recover, and when we are in a stronger economic position then we can go on to pay for the things that are the goals of this government, and of past governments to some degree.

I would like to ask you what you think would happen if there were that kind of cut on people, the people in your communities, the communities themselves in terms of organizations and those things that make the spirit and soul of a community and then the economy itself. What kind of impact would you think that would have on the economy overall?

Mr Evans: That is a good question. I do not want to get into economic debates about what kinds of spinoffs there are with different kinds of policy actions, but I do want to speak more directly about the kind of people we represent, the kinds of agencies and the people they deal with on a regular basis. If you had 20% rollbacks, and I want to give you some examples, in some of the areas of this city, in the downtown area not far from where we are located right now, just a little bit farther towards the market, the child poverty rate in those areas runs at between 30% and 40%. Many of those children's parents, be they single parents or two-parent families, rely on social assistance. They rely on all the social and health support systems the government provides. When you roll back 20%, you are rolling back on those individuals.

The reason I focus on children is because children represent, in part, our future. How we deal with our children today, the kinds of opportunities we give them, the kinds of development they are accorded, will affect us 15 or 20 years down the road. A 20% rollback is like a business refusing to invest in its future, holding back investment in rebuilding its infrastructure and in research and development. That is the kind of thing you have to look at. One of the statistics that was cited, which is from Back on Track, is that 42% of beneficiaries on social assistance are children.

The Chair: I am going to have to cut you off there and go on to Mr Kwinter.

1130

Mr Kwinter: Mr Evans, I really enjoyed your presentation. I notice running throughout it you were very positive about the budget, but you expressed some concern that notwithstanding that times are tough, there was not enough money spent and you had hoped there would be more money forthcoming, and sooner. Is that a fair description of your position?

Mr Evans: I guess I better respond. It is directed at me. Yes, with one qualification. It is not simply a matter of throwing out money; it is how the money is allocated. The

social planning council has historically been in favour of stimulative macroeconomic policy and we view these particular macropolicy techniques as a way of stimulating the economy. The alternative is a more monetarist form of policy, and we have some wonderful examples in Chile, in the United States and in Great Britain or the United Kingdom where these policies have not been terribly successful. We do not see any alternatives to this particular kind of stimulative policy on the horizon. If you have other alternatives, then I think we would perhaps be willing to listen.

Mr Kwinter: This year the expenditures increased by 13.4%. Next year the Treasurer—these are his figures not mine—is predicting that expenditures will increase by 6%, which is the rate of inflation. In 1993-1994, they will increase by another 6%, which is the rate of inflation. In 1994-1995, they will increase by another 6%, which is the rate of inflation. I want to get to 1994-1995, which is at the end of that period. At that point, the total expenditures will be \$64.8 billion, which is the 6% cumulative increase over this year as opposed to the 13.4%.

Mr Evans: Not taking inflation into account?

Mr Kwinter: That is right.

Mr Evans: Then you have inflated figures. Take inflation into account, please.

Mr Kwinter: No. What I am saying is that this \$64.8 billion does not take into account—

Mr Evans: Right, multiply it by the inflation rate.

Mr Kwinter: So when you put inflation into it, there is actually less money and the debt will—

Mr Evans: Are you sure there is less money?

Mr Kwinter: Well, \$64.8 billion five years from now has to be worth less than it is now because of inflation. They are not saying it is \$64.8 billion plus inflation. They are saying \$64.8 billion as a global, finite figure.

Mr Evans: Give me the figures, the increase in terms of real dollars, and then we can talk.

Mr Kwinter: I am telling you. This year the total expenditures were \$52.777 billion. Next year they are going to be \$56 billion.

Mr Evans: Unfortunately, I do not have a calculator in my head.

Mr Kwinter: I have worked it out, believe me. Next year it is going to be \$56 billion.

Mr Evans: In real dollars?

Mr Kwinter: In real dollars. The following year, it is going to be \$60.3 billion in real dollars. In 1994-1995, it is going to be \$64.8 billion in real dollars. What I am saying is that they have gone up 6% each year, but that is really the rate of inflation, so they have not gone up at all. In 1992 dollars, it is constant.

Mr Evans: Okay.

Mr Kwinter: The debt will have doubled. This year in the budget, of that \$52 billion, \$5 billion or \$4.995 billion is used to service the debt. By the year 1994-1995, that will be close to \$9 billion.

Mr Evans: I just want to sort of—

Mr Kwinter: The point I want to make—

The Chair: Mr Kwinter, let him give one short answer.

Mr Villeneuve: The question has not been asked.

Mr Kwinter: The point I am making is this. When you look at those figures, when you consider you have to pay the debt, the increase is only at the rate of inflation. There will actually be less money to spend in 1994-95 than there is this year, and this year you are complaining that there is not enough. How are you going to deal with that?

Mr Evans: But the argument you are giving is based on how you understand the budget. I would refer you to Harold Chorney at Concordia University who provides a very interesting analysis of the way in which the deficit is structured, certainly at the federal level. I would imagine, just based on extrapolating from his analysis of the federal deficit, that you would have a similar kind of deficit.

Those of you who deal with the finance department can tell me how the debt is actually structured. There are various ways in which debt and deficits can be measured on paper. The important thing is how this is having a turn-around effect on your ability to carry on with your expenditure activities. I do not know for sure. I am not terribly convinced however—this is based once again on Harold Chorney's analysis of the federal deficit—that your concerns with the deficit are what they should be.

Mr Kwinter: These are the Treasurer's figures, not mine.

The Chair: Mr Kwinter, I am sorry. We have run out of time.

Mr Evans: Harold Chorney provides a very good alternative analysis of those kinds of figures. Maybe you should look at him and address your question to Harold Chorney.

The Chair: I am sorry I have to cut you off. There is another group coming on and we are short of time. Thank you for your presentation. The parties here were be very enthusiastic about asking questions.

ONTARIO TEACHERS' FEDERATION

The Chair: The next group is the Ontario Teachers' Federation. You will have one half-hour for your presentation.

Mr Poste: I am Ron Poste, president of the Ontario Teachers' Federation. With me this morning I have Margaret Wilson, the secretary-treasurer of our organization, and Ruth Baumann, one of our staff assistants.

The OTF is pleased to appear before the standing committee on finance and economic affairs to offer its comments on the 1991 budget. We represent Ontario's 126,000 teachers who work in the publicly funded elementary and secondary schools. We are the statutory organization encompassing all five of Ontario's teacher affiliates. The Ontario English Catholic Teachers' Association you heard from earlier this morning is one of our affiliated groups.

We represent Ontario's citizens from approximately age four through to adulthood, as adults can go into continuing education classes, and obviously we have a very keen

interest in the economic and social wellbeing of the citizens of this province.

I know you are getting to the end of three weeks of hearings on the budget and you have heard all kinds of people referring to the pros and the cons. It certainly is a controversial one. In spite of Mr Kwinter's comments about James Frank and where he ranked, I would have to argue that maybe that class is more than 15 students. It probably has thousands in it, and if you are in the top 15 in a class of 1,000, you might very well be the valedictorian.

Commenting on him—the comments are in the middle of the page—we were most interested in his point that because of Ontario's structure, the recession we have faced might have been longer had the government not taken the moves it has taken in this budget.

We are speaking for the children of our province, people who probably have not appeared before you themselves. I have a very difficult letter on my desk. I tried to answer it yesterday and I am still struggling for answers. The concern for Ontario's children goes beyond the teacher organizations. This particular letter comes from the president of the Peterborough Association for the Rights of Young Children. She bases her letter on the premise that we do not seem to value our young children in Canada and in Ontario. She cites the reluctant and perhaps inadequate funding techniques of the federal, provincial and municipal governments as they relate to that. If you have any easy answers to that kind of a premise letter, I would be most interested in your sharing them with me. I still do not have an acceptable answer as a member of the profession.

We recognize the problems of the government and the budgetary deficit, and it seems to us there are three alternatives. The first is that programs can be cut, and we have listened this morning to much of the debate involving program cuts.

Economic resources are stretched in times such as we have now, and in the schools, we see first the impact of this on the children of this province. Demands are increasing and these organizations were already pressed to the limit in providing service that, as a society, we have undertaken to provide. I would note that all three parties, in their turn in government, have indicated that it is important to provide assistance to families in need and ensure a consistently high quality of health care for all. The federal government has demonstrated, as you know, that it is prepared to renege on established programs and is offloading costs on to the provinces.

I participated last June in a conference with American and Canadian teachers. We focused for half that time on the universal health care program that is available in Canada. I need to tell you that it was a topic of very envious discussion coming from our American colleagues, not looking at it from the point of view of what it meant to them as individuals, but taking a look at what it meant to the children in the schools south of the border, where the families could not afford private coverage for health care that we in Ontario take for granted. That conference indicated the devastating impact that has been wreaked on America's children. Hopefully, that will not happen here in Canada.

We believe that a strong educational system is essential for Ontario's long-term economic health, for this is the system that does the training and retraining in times of high unemployment and in times of rapid job changes, things that we have right now.

1140

We have appended to our submission an article by Dr David Livingstone of the Ontario Institute for Studies in Education. He brings forward points I did not hear as I listened to other presenters this morning. I am not going to read them to you, but I would ask, if you are scanning while I am talking, that you might want to look at the last paragraph on page 2.

We acknowledge that expenditures in health, education and social services are important and major expenses of this government. Health care workers, teachers, school board support staff and social service employees all take a fair bit of that money. The point I would raise, in addition to the comments that were made this morning at the questioning about what would happen if we were to chop it by 20%, would be that it certainly would have a major effect on the employees within our system in particular. We would probably be looking at several thousands of people looking for other employment. I could not help but think as I sat at the back this morning that this might be like turning the fox loose in the chicken coop, because if those people who are out there seeking employment do get jobs, it is going to be at the expense of someone else. Is that really the right way for this government to be going?

Cuts in transfer payments to school boards and municipalities, I guess, is the federal technique moved to the provincial level. We see that as putting the municipalities on the spot, where they either have to raise taxes or go after the property tax. We believe this would continue to open up the gap between the rich and the poor in this province.

In spite of all attempts to maintain an educational system that is neutral to all citizens in Ontario, we know from the research that this is not happening. Our educational system, as hard as we have worked on it in the past, does tend to favour certain groups in our society.

If that is not a viable alternative for cuts, then we have to look at raising taxes. The Ontario Teachers' Federation believes that is very unattractive at a time when the economy is as fragile as it is right now. We are aware that programs and services cost money and that revenues must be found somewhere. We support the intended work of the Fair Tax Commission in its efforts to study and reform our current taxation policy. We believe the public is willing to pay for a quality education system if it has reassurance that the spending is prudent and the tax increases are justifiable. It is said any fool can tell you what is wrong with something. It takes a challenge to develop a workable alternative.

Few of the critics of the Ontario budget that I have read have suggested where savings should or could be achieved. They tend to make very general statements about restraint in public spending.

The third alternative then is to increase the deficit. We use the analogy that we have in our private lives: When

times are tough, we trim discretionary spending. We consider what is essential and we are prepared to borrow. We think this applies equally well to the government. Using government moneys to stimulate the economy through increased employment, assistance to business and industry and the maintenance and improvement of infrastructure is not spendthrift behaviour if it is accompanied by a realistic plan to pay down the deficit in the future. This government, we believe, has started off on that route by requiring school boards and municipalities to provide matching funds in order to access the provincial anti-recession capital improvement funds. We believe this helps ensure that projects are both necessary and appropriate.

Our major pitch this morning is going to be for sound fiscal management. I would like to emphasize at the outset our desire to participate as a profession in this objective. We believe the provincial budget is a planning process. Effective processes for spending review require much more time, depth and detail than the preparation of a budget allows. We believe this is especially true in an area like education, where many of the decisions with financial implications are vested to local school boards. The province provides the money; the boards of trustees determine where that money is spent.

The Ontario Teachers' Federation believes that a thorough review of educational spending and of the financing of education is necessary. Again and again, we have indicated to this government and to previous governments our interest in participating in such a process. We believe that the provincial government, school boards, teachers, administrators and community representatives could undertake a responsible and complete examination of where Ontario's education dollars are going and why. We note that the government and the Ontario Medical Association have undertaken to work together in reviewing the health care system and its costs. We believe a similar process could be used in other areas of government spending over the next few years.

In summary, I once again would like to refer to David Livingstone's article, where he indicates: "The logical, democratic conclusion in a condition of underemployment would be to reform the economy in order to apply underutilized educational qualifications, rather than wasting them and restricting the development of further educational potential. Canadians, from the economic council to most classroom teachers and trade unionists, seem so bedazzled by the notion of 'market forces' that we are reluctant even to think about alternative economic forms which are less obsequiously tied to the pursuit of profits and less indifferent to the wastage of human potential."

Ontarians who are unhappy with the budget would be wise to look around the country and see the effects in other provinces of the tough approach to the recession. There is no evidence that the cut public spending strategy improves the economic climate. We acknowledge that Ontario has been harder hit than other provinces. This budget attempts to provide some protection for the most vulnerable.

The choices facing the government in preparing the budget are not attractive or easy. Sound financial planning takes into account obligations, needs and resources and

looks at the long term as well as the short. No one likes a mortgage, but most of us have them.

We urge the committee to do two things: (1) to support the budget, and (2) to undertake a series of program and financial reviews so that the paydown of the mortgage will be systematically addressed. The Ontario Teachers' Federation, the representatives of the 126,000 teachers in this province, is anxious to participate in such reviews.

The Chair: I would like to thank you for your presentation. What we have is four minutes for each of the parties, so in your preamble to your question, make sure your presenters have a chance to give an answer.

Mr Sutherland: Your presentation was very thoughtful. I appreciate the emphasis you put on issues of planning and debt reduction, which certainly are important issues. You talked about review of finances overall. I was just wondering what your view is in terms of local school boards, public school boards and separate school boards, co-operating or working together. What is your sense from your membership as to how that is occurring in terms of a voluntary effort. Certainly the minister has quite clearly indicated—and I think rightfully so—that the government has no intention of forcing amalgamation because that would certainly be seen to be undermining the constitutional right to a separate school system. But I am wondering if you can let us know your sense of what type of co-operative efforts are going to reduce costs.

Mr Poste: I will start and then I will turn it over. Everyone is aware that the level of co-operation around the province varies from boards that are working in harmony to boards that are at war with each other, requiring intervention of outsiders to try and get it done. Perhaps for specifics I could defer to Margaret Wilson.

Mrs Wilson: The federation encourages co-operation between school boards. There are very definitely areas in which they could share resources. Some boards are already sharing resources, consultants for instance, in terms of educational services.

One large area for co-operation that we believe could save a great deal of money is in school busing. But I would hate to focus on the co-operation of school boards as the sole issue. We are quite serious when we say that there needs to be an intensive examination of how the education dollar is being spent in total. I think right now our knowledge of how it is being spent is insufficient. I would be nervous of identifying any particular issue that might generate substantial savings.

Mr B. Ward: Throughout these hearings, we have had a lot of rhetoric on both sides about, on the one side, you should be cutting everything, and on the other side, spend more. From the aspect of education expenditure, I think that is one area we should be concentrating on, because the key to future prosperity is having an educated workforce, having the skills that are necessary to be able to meet the challenges of the 1990s. I agree that times change and we should be reviewing on a constant basis to ensure that the programs we are implementing are effective to meet the needs of the future, not the past. What is your feeling on

how we can make decisions that will be effective, recognizing we should be having a fundamental review?

1150

The Chair: I am sorry but I have got to cut you off there.

Mr Kwinter: As a former teacher, a former educator and someone whose wife is still a teacher, I have a great deal of sympathy and support for teaching and for education. I agree that our most treasured resource is our young people and the people who teach them, so I am totally supportive of providing all the funds necessary to make sure that we have a well-trained, educated population. I enjoyed your reference to the very last paragraph of the last page, when you said: "Sound financial planning takes into account obligations, needs and resources and looks at the long term, as well as the short. No one likes a mortgage, but most of us have them." I agree. But tell me what your reaction would be to having a mortgage that costs you more money every year, but, instead of the principal going down, it goes up. So every year your principal increases, you owe more money on your mortgage than you owed last year and it costs you more to service it. How would you feel as a mortgage holder in that kind of situation?

Mr Poste: You asked me a personal question and I will respond personally, not very comfortably. I believe the problem the current government is facing is not totally of that current government's making. As I said at the back, and you probably will not like this and I say it a bit with tongue in cheek, I found it amazing how a party that was in government and is now in opposition can all of a sudden find stones on the floor of the greenhouse so it can throw them. Certainly, if one can believe the article in today's *Globe and Mail* about the deficit and the amount that is directly related to increased government spending, which is purported to be \$3 billion—I think I heard comments this morning that tended to support that and the source of the rest of it—then certainly the problem is there but I do not think it is fair to lay all of the cause for it on the current government. That is why I said we believe there needs to be a systematic approach to paying down the mortgage and we are prepared to participate as educators in our part of that.

Mr Kwinter: Are you aware that last year, in the operating budget, there was a surplus of \$192 million? Were you aware that for the first time in, I think, 30 or 40 years, \$500 million was paid on the principal, which is not something that anyone is even considering. All they are talking about is increasing debt with no principal payments at all. But last year \$500 million was paid on principal and there was a \$192-million surplus in the operating budget. The total budget of \$3.2 billion was in capital and that was a decision the government took. The government took the decision to spend that money. So in talking about stones on the floor of the greenhouse, I think you should take a look at what actually happened.

The point I am making is that I have no problem with a deficit when times are tough. But where the Keynesian economy falls apart there is no provision and no structure for that to be reduced when times are good. All you

have to do is take a look at its projections, because it went to the trouble of showing you what the projections are going to be for the next four years. They are going to have to say to school boards and social welfare agencies: "Look, times are good. We can't give you any money. You'll have to wait until times are tough, because there isn't any money now." They do not have enough money to pay down any debt, but there is no source for that additional income.

Mr Poste: I guess we say we recognize that; hence our desire to participate in a review of the costs of education.

Mr Sterling: You represent 126,000 teachers. Can you tell me what the average salary of a teacher is?

Mr Poste: It is \$43,000 or \$44,000.

Mr Sterling: So according to what I have read, we are about \$14,000 above what it is in the United States. Is that correct?

Mr Poste: I do not know.

Mrs Wilson: Yes, that would be correct if you take the US average, but that would not be correct if you are looking at the northern belt of states. You have to include the Sunbelt to get that differential.

Mr Sterling: We are competing in a world economy now. You have heard a lot of people talk about productivity. I know from experience in my community that many young people want to become teachers, I think partially because of the financial remuneration and partially because of other, more laudable goals. But everybody looks at compensation as well. In fact, I believe that only 5% of the young people who apply to become teachers get into the teaching colleges, maybe 10%, I am not sure, but it is very low anyway. Do you think that because of the relatively high wages we should be getting a better system than anybody else? How do we explain things like the fact that the United States has a higher standard of living than we do?

Essentially, the education system is supposed to prepare our people to provide the economy and that is the argument, that the investment and the education system is going to provide us with the best educated individuals. Yet when we look at the results it seems that people who are spending less on education are getting more return. The standard of living has to be, in my view, the ultimate test in terms of how well you are achieving your goal. Are we overpaying our educators in relation to the world market?

Ms Baumann: We certainly do not think so.

Mr Sterling: I did not expect you to say you would agree with that.

Ms Baumann: I would take serious issue with your statement that the US standard of living in general is higher than the Canadian standard of living. I am not sure that is a supportable statement.

Mr Sterling: It is.

Ms Baumann: Certainly, in terms of what we know is going on in school achievement, in terms of, while their participation in post-secondary is higher than ours, that is a long-standing factor. The cost of post-secondary education

has become astronomical in the United States. It is much less affordable than it is here and I guess I would say, as somebody who immigrated here from there a long time ago and who goes back on a regular basis to see family and friends, I am firmly convinced that our standard of living in terms of things like our health care system and our social welfare programs and so on has provided us with a great deal more security than our neighbours south of the border have.

Mr Sterling: You may be convinced of that. But the other point is that I know the OTF has taken a stance, or I believe the OTF was one of the groups against cross-border shopping. Was it the OTF?

Mr Poste: Yes.

Mr Sterling: Two days ago we were in Cornwall and the business improvement area of Cornwall hired a consultant to do a survey, to find out what was being brought across the border, who was bringing it across the border, etc. Teachers were number one in cross-border shopping. You are public servants and you are paid with taxpayers' dollars. Do you think that is a responsible thing for your teachers to be doing?

Mr Poste: My answer is a simple no. It is not a responsible thing. We have communicated the beliefs of our provincial organization to our members. I guess it is like anything else. Whether they choose to comply or ignore is an individual decision. It would be interesting to check at another time when teachers are not all on holidays whether your statistics were still there, but I still come back to my initial point. It is not supported nor endorsed by the provincial teachers' organization and I believe it is very shortsighted on behalf of the people who are doing it.

Mr B. Ward: On a point of order, Mr Chairman: I think that is a deplorable statement by the representative of the business improvement area of Cornwall.

Mr Villeneuve: It's in Hansard.

Mr B. Ward: It was a verbal statement. We did not receive the report that he was referring to.

The Chair: I would like to thank you for your presentation before this committee. This committee is recessed until 1 o'clock.

The committee recessed at 1201

AFTERNOON SITTING

The committee resumed at 1310.

SANDY HILL COMMUNITY HEALTH CENTRE

CUMBERLAND TOWNSHIP
COMMUNITY RESOURCE CENTRE

CENTRE DE RESSOURCES COMMUNAUTAIRES,
CANTON DE CUMBERLAND

COALITION OF COMMUNITY SERVICE CENTRES
OF OTTAWA-CARLETON

COALITION DES CENTRES DE SERVICES
COMMUNAUTAIRES D'OTTAWA-CARLETON

The Chair: We will resume our hearings on the budget review of the standing committee on finance and economic affairs in the beautiful city of Ottawa. The first presenter to come forward is the Sandy Hill Community Health Centre. We are going to change the schedule a little bit here. We are going to have three groups. The Cumberland Township Community Resource Centre will come on next and then the Coalition of Community Service Centres of Ottawa-Carleton. After each one has made its presentation, I hope one representative from each group will be at the table to answer questions from the committee.

If you do not mind starting, you have up to one hour for your total presentation and we will have the question-and-answer period after the three groups. Maybe the members here should get their pens and take some notes, since we are listening to three groups right in a row without asking questions until the very end. Would the Sandy Hill Community Health Centre representatives please identify yourselves and your positions for the purposes of Hansard. You may begin.

Ms Muckle: Thank you very much for having us here this afternoon. I am Wendy Muckle from the Sandy Hill Community Health Centre. I am the medical co-ordinator there. I would just like to introduce my colleagues Linda Gunning, a member of our board of directors, Irene Norman, a long-time member of our board of directors, and Georgia MacNeil, who is one of our community committee members.

The Sandy Hill health centre provides a wide range of health and social services to the residents of St George's ward here in Ottawa. The health centre was started more than 15 years ago by a dynamic group of community residents and continues to be owned and operated by the community through an elected board of community directors. The centre is organized into five program components, which include social services, health services, seniors programs, addictions assessment and referral services and a community outreach and development team.

The centre provides a wide variety of programs and services which includes things like family medical care; one-on-one and group counselling; addiction assessment and referral; advocacy on behalf of clients in the community; seniors' health and activity programs; support and services to frail, isolated and at-risk seniors in the community; support and service to new immigrants and refugees; self-help and support groups; health education and health promotion

programs; and housing assistance. Beyond the provision of programs, we actively organize and support community involvement in issues like the upcoming municipal elections, responding to new legislation like the long-term care reform or changes to human service programs that affect our community.

As a health centre, we actively encourage people to participate in determining the future for themselves and for their community. In the past five years the centre has experienced tremendous growth and the addition of much-needed programs and services for our clients, accompanied by an exponential growth in the numbers and in the complexity of problems which are experienced by clients.

Based as we are in the community, we experience at first hand the results of recession and cutbacks in social assistance programs. We do not need to read the papers to be told there is rising unemployment and rising welfare rates and that social assistance programs no longer provide an adequate income. At our centre those statistics are people without decent housing, in many cases in fact without any housing. There are hungry children who are not learning anything at school. They are watching the cycle of poverty repeat itself from one generation to the next.

We see not only the struggle to survive but the costs in terms of human productivity and contribution to this society. For example, every program within our centre is struggling to respond to the mental health crisis which is being experienced within our community. This is not simply mental illness due to disease. It is mental illness which has been created and perpetuated by the recession, unemployment, poverty and a lack of decent housing and a safe physical environment.

We see the cost in human terms, in rising family violence, family breakdowns and an epidemic of addictions. As a centre, we see the 1991 provincial budget as a necessity, a recognition of what is really happening and a sincere commitment to investing in the people of this province.

I will now turn our presentation over to Linda Gunning.

Mrs Gunning: My name is Linda Gunning and I am a volunteer member of the board of directors of the Sandy Hill health centre as well as chairperson of the health services committee and the social services committee. In my day-to-day work, I am director of St Joseph's Women's Centre, which is a centre for homeless women, a day program. Most of our clients are psychiatrically disabled, and usually—or at least for many of our clients—that is only one of the problems they struggle with. Some of them also have to struggle with serious health issues as well as addiction problems.

Needless to say, about five years ago, when the numbers started to increase and I realized how complex were the problems of the clients who were coming into our centre, I started looking to the community to see what kind of resources I could bring in to stop some of the falling between the cracks that many of our clients were experiencing. It was then that I really learned about Sandy Hill health centre. It

was in conjunction with them that the idea of health for the homeless came into being.

This is a project that is a combined effort between Sandy Hill and regional public health. It provides us with a nurse who comes in for half a day once a week, which has been an incredible help to the women, not only in direct health service and in linking them with the health centre, because this nurse does also work at the health centre, but also educationally. These nurses come in and bring in health material that they discuss with our clients in the afternoons they come.

We also got mobile outreach from the Royal Ottawa Health Care Group, and this provides us with a psychiatric nurse who now comes in as well as linking our clients up with other services at the health centre like counselling, addiction assessment, workshops on parenting, practical things like this that can really help our clients cope and manage through the day. That is all we really hope for—just one day at a time.

I also hope that in return I have been able to give to the health centre some of my skills, some of my experience, some of my day-to-day contact with the problems our clients face, problems primarily due to poor health physically and mentally, to poverty, to housing issues. It seems everything out there that is maybe not working very well is affecting our clients to the greatest degree.

Also, as a manager working in an agency providing social services, I have worked closely with both provincial and regional government and I have felt at first hand the negative effects of Canada assistance plan cuts and provincial cutbacks. But I also know from past experience that when the community knows what the reasons are for tax increases and knows the community workers have been involved in the decision-making process, people are not opposed to reasonable tax increases. This is an experience we had with regional government just in the past year and it is a process that we are modifying and making better, hopefully, with each budget year.

Those of us involved with regional social services know this kind of process works, and the additional benefits of meaningful dialogue and understanding are well worth the effort to put such a consultative process in place.

What I do feel is personally objectionable is holding the public to ransom by blanket threats of tax increases—either/or situations. I consider myself an intelligent citizen in the community, and if I know what is happening, I am ready to respond. I certainly think most of my peers, my colleagues, are willing to do the same thing.

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I also come here as a middle-class working wife, mother of two of my own children and one stepdaughter, all in university right now, hopefully not for ever, not to mention our dog, cats and the house, better described as the mortgage. So I certainly know what is involved in just keeping things together, the day-to-day struggle of the average person. At the same time, I always have to go back to the thought that how could I or any reasonable person jeopardize long-term progressive social justice and change that can make life better for my children's generation by saving

a few well-spent dollars on taxes. No one is opposed to a good tax system that truly benefits all of the people.

Mrs Norman: My name is Irene Norman. I have lived in Sandy Hill for the past 20 years. As a long-time member of the board of the Sandy Hill Community Health Centre, I have a great deal of respect for the work that is being done there, as in all the centres with their professional services.

Since 1975, the service has grown from a small office with five employees to a centre with 71 employees consisting of doctors, nurses, social workers, secretaries, on and on. It has been my observation that the increase in size has gone along with increased concern for people and their problems. As a taxpayer, I am far more concerned about how the money is allocated than how much tax I have to pay. I believe I belong to a large number of citizens who are concerned to see huge corporations paying their fair share in Canada rather than moving their activities to Mexico, where they do not pay any taxes. In addition, they pay very much lower wages than in Canada.

However, as a peace activist I would certainly reduce the taxpayers' burden regarding armaments. The money saved in that field I would put into social services and affordable housing for the needy. We cannot have a healthy country while there is homelessness and hunger among us.

Ms MacNeil: Hi. I am Georgia MacNeil. I am a community committee member at the Sandy Hill Community Health Centre. In contemplating the problem you people have to deal with, I can say certainly nobody welcomes a budget deficit. As a taxpayer, I certainly find it frightening myself. However, as a community committee member at the health centre, I can see that the present economic crisis really is having disastrous effects on a growing number of individuals and groups. The dramatic increase in unemployment, the growth in the welfare rolls and a shocking number of children who are now living in poverty are just a few examples of the problems that we have to address.

Given the nature of this crisis, I certainly see that there is a necessity to incur a deficit at this time. I think the deficit is a really necessary investment and can certainly be repaid in the future. We also recognize that there are a lot of tradeoffs that have to be made when you are considering how to allocate the scarce resources we have. What we need is for the government to recognize the acute need for continued investment that is going to support social programs which help to enhance the social, economic and physical health of our individuals and communities.

We recommend that priorities be set to provide resources for the following areas:

1. We need continued social assistance reform, as outlined by the SARC document.
2. We need more affordable housing, more safe housing, and we also need more emergency shelters.
3. We need more job training programs that are specifically designed to recognize the special needs of the participants, such as transportation, child care and flexible hours.
4. We need increased mental health support services which run the gamut from crisis intervention to long-term counselling and intervention programs.

That is about all I have to say. I think that should summarize what we feel about it.

The Vice-Chair: Okay. Thank you very much for your presentation. We will now call upon Cumberland Township Community Resource Centre to come forward. If each of you would identify yourself for the purposes of Hansard.

Mrs Somers: I am Francie Somers, and I am a board member with the Cumberland Township Community Resource Centre, acting president. This is Thérèse Preston, our executive director at the centre. I want to thank you for inviting us here today to introduce our township and our community centre and to let you know a few of our needs in reflecting on the budget.

Cumberland township, geographically, is at the eastern border of the Ottawa-Carleton municipality. We are unique in that we have a large urban and a very large rural population that we serve, and for that reason a lot of their needs vary. Our township covers 315 square kilometres, so we have a very large area to service.

Over the last 10 years we have had very large growth, mostly in our urban areas, and with this have come increased social and economic problems that we have had to serve. Population projection for the year 2000, again, is going to take leaps and bounds, and they are looking at between 54,000 and 59,000. It is going to be like a mini-city within Ottawa. We are just having a very difficult time right now keeping up with the pace of the social programs that are needed and the economic programs that are needed.

There are a number of concerns, as I have told you, in our community that we are trying to address, and with the recession being the way it is right now we have had quite an increase in some of our requirements for food programs and emergency housing.

Our community and our resource centre appreciate and are very encouraged by the 1991 budget. With these progressive social reforms and programs we feel that there is maybe a light at the end of the tunnel to help us with some of our community.

One of our biggest problems facing us right now is housing, affordable housing; it is non-existent in our community right now, in our township. Our planning department is in the process—I believe it is the second proposal that they are putting into the province for this type of housing. There is a great need for it for our low-income families, our seniors, our displaced youth and our individuals with special needs.

Presently if someone is seeking affordable housing we are having to move them out of the community which they have lived in, often for a number of years, but because of financial changes or economic changes they have to leave their community now where all their resources are. where their family, church and every other kind of resource is, and have to go into Ottawa, further into Ottawa, to afford this type of housing. It is not ideal, but we are really looking forward now. With the increased funding in affordable housing we are hoping that over the next few years we will be able to benefit from this budget consideration.

Another area where we are lacking—not just lacking, but it is non-existent for us also—is for abused women. We at present have no social-service counselling available. There is only private counselling available for our community members, which is at, of course, a cost to the member. So a lot of our clients cannot afford this. There is also no shelter available. So an anglophone woman who is in distress and needing immediate housing would have to go all the way to Nepean, and I do not know if you appreciate that, but that is right across to the west end of town, completely away from her community, from her children, from her employment. It causes a great deal of problems with transportation for her employment.

Another area here, considering transportation at this time also, our rural women are very affected by the fact that there is no shelter and there is not easy, accessible transportation to get them to counselling or even to the Nepean centre or one in Vanier, which is in the middle of Ottawa.

So again, we are very hopeful, knowing that there is more funding being put into these areas, that we are eventually going to be able to benefit from this.

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We are very proud of the independent food program that we carry on at the centre, but over the last 12 months, we have had a 400% increase in demand and requests for emergency food. We can only handle so many. We do very well at what we do, but we are really looking forward to the benefits of the increased funds to the municipalities to help with welfare and social assistance, which might give us more opportunity to serve these people well in their food needs.

As I mentioned, transportation is a big problem. Public access is a big problem for us at the centre for our rural community, because it is non-existent right now. The urban sectors have it and we are still trying to negotiate. I think after discussing our three pertinent problems—we know you cannot solve this problem for us, but we are trying to look for your support when dealing with other governments, municipal and regional, approaching them and saying that we really require this transit system. Maybe just having your support would be beneficial. That is one of the requests we are making today.

Basically, not to sound like we are pleading, the lack of funding is one of our big issues. We have been working underfunded since the onset and it has just become worse. So the demands are causing us to have a lack of human resources to facilitate our community and a lack of even physical space in looking after our community and our clients.

Basically, that is all I have to say for now, just to thank you again for allowing us to come and present. I am going to direct the next part of this to Thérèse Preston. We have a large francophone community in our area also, which I just happened to forget to mention, but it is a very important issue that we have to deal with and we have to have everything bilingual. So Thérèse will continue on with the francophone issues.

Mme Preston : J'aimerais prendre quelques minutes de votre temps pour vous parler de notre communauté francophone et de ses besoins.

Le canton de Cumberland est composé d'une proportion importante de francophones. En 1986, le recensement indiquait que pour 35.2 % de la population le français était la langue première. Tout comme la population anglophone, la communauté francophone est confrontée de l'absence de logements subventionnés. Les logements subventionnés pourraient permettre également aux personnes à faible revenu de cette communauté d'avoir un logement à prix abordable tout en restant dans leur communauté, ce qui veut dire ne pas être exposé à l'isolement et aux difficultés de s'ajuster à une nouvelle communauté.

La communauté francophone, tout comme la communauté anglophone, vit également la problématique de la violence physique, psychologique et sexuelle, et particulièrement la violence faite aux femmes et aux enfants. Les femmes qui vivent cette réalité dans le canton de Cumberland n'ont pas accès à des services de conseil individuel ni à des foyers d'hébergement. Si elles ont besoin d'un lieu pour assurer leur sécurité physique, elles doivent aller à l'extérieur de leur territoire, lorsque les services sont disponibles.

En plus de la séparation qui est vécu au niveau de la cellule familiale, ces femmes vivent également la séparation de leur milieu, comme le font les membres de leur famille et les enfants, c'est-à-dire, un isolement ou une absence de l'école et la présence d'autres difficultés sociales reliées à cet isolement.

Pour les femmes vivant en milieu rural, cette difficulté s'accroît davantage à cause du manque de moyens de transport ou de services adéquats. Ceci contribue davantage à une difficulté d'accès à ces services.

Une majorité importante de francophones se retrouvant dans le milieu rural, notre problème de services adéquats de transport est davantage vécu par la population francophone. Le manque de moyens de transport affecte les jeunes qui ont besoin d'activités sociales ou récréatives et d'autres services, les personnes âgées, les femmes et les hommes qui sont parents avec enfants, les personnes handicapées et, également et davantage, les personnes, les femmes surtout, victimes de violence.

J'aimerais terminer en vous disant que, si nous avons un manque de ressources en général, tant pour la population anglophone que francophone, il se fait sentir davantage dans la population francophone parce que les services ne sont pas existants même à l'intérieur du territoire de la municipalité d'Ottawa-Carleton.

Notre communauté francophone du canton de Cumberland aimerait recevoir votre appui. Tout comme vous l'avez indiqué dans votre budget, nous avons déjà un fort encouragement au niveau du logement. Nous avons déjà un fort encouragement au niveau de la violence physique en ce qui concerne les foyers d'hébergement, tout comme les services pour les personnes victimes d'agression sexuelle chez les femmes et chez les enfants. Nous avons un grand encouragement — votre appui — dans les services en général pour les personnes vivant sur l'assistance sociale.

Nous avons également besoin de votre appui pour le développement des services en français, pour le développement des services sociaux en français.

Mrs Somers: Just one last note: We do have a written document here that just goes into a little more explanation and we would just like you to know that it is here for you.

The Chair: We will now call upon the next group for their presentation, the Coalition of Community Service Centres of Ottawa-Carleton. Once again, if each of you could identify yourselves for the purpose of Hansard, we would appreciate that. So if you would like to begin.

Ms Tolton: My name is Susan Tolton. I am the chair of the Coalition of Community Service Centres of Ottawa-Carleton and I will be giving you a brief introduction about the coalition, coming back with some recommendations as well at the end.

Ms Romaniec: My name is Wanda Romaniec and I am representing Carlington Community and Health Services. I will be presenting a little bit of information about the current situation in Ottawa-Carleton.

M. Monette : Je suis Richard Monette du Centre de ressources communautaires de la Basse-ville. Je veux vous entretenir un peu sur la situation des sans-abri, et plus particulièrement sur la situation du logement en général. À la fin, je vais revenir avec quelques recommandations aussi.

Ms Hunter: I am Chris Hunter representing Centre-town Community Health Centre. I will be talking a bit about the budget and directly how it relates to our priorities, and some of the current situations that Richard and Wanda will talk about.

Ms Tolton: The Coalition of Community Service Centres of Ottawa-Carleton is a coalition of community health, resource and social service centres throughout the Ottawa-Carleton region. The coalition formed early last year to defend and advocate for necessary social programs in the face of federal government cuts to the Canada assistance plan. The main objectives of the coalition became: (1) that social issues become a priority at all levels of government, and (2) to encourage and support community participation in the political process.

The coalition believes that progressive social policy is a good investment and we support the right of all residents to adequate and affordable housing, an adequate standard of living and to live in a safe and healthy community.

Recently, the coalition facilitated consultations with over 40 groups across the region, trying to help citizens identify issues in light of the upcoming municipal elections, but during the course of these consultations many of the issues which were identified were directly linked to provincial social policies. Some of these included the need for more subsidized day care, the lack of affordable housing, a need for increased supports to employment and for adequate income levels.

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Ms Romaniec: Thinking about the provincial budget, the coalition recognizes the kinds of factors that were influencing that budget, primarily factors from the federal level of government. These factors include recent decisions

around UIC—eligibility, the amount people are eligible for, how long they are eligible for—the backlog in processing refugee claimants, resulting in people who are willing to work and interested in working but legally cannot work, and as a result, turn to the social service system for support, as well as the recent limitation or the cut to the Canada assistance plan to limit the amount of transfer payments to the province.

All these conditions result perhaps in an increase in the demand on social services, as well as a need for the province to make up the difference, the shortfall, through the federal decisions.

We would like to concentrate on two areas, primarily food and housing. There are almost 14,000 households in Ottawa-Carleton spending more than half of their income on rent, some 2,250 living on the streets, and then many more living below the poverty line who are difficult to keep track of and to monitor.

All this has made food banks more than just an emergency service. The Shepherds of Good Hope here in Ottawa-Carleton have noted a 22.5% increase in the demand for their grocery program between 1988 and 1989. The five major food programs in Ottawa served 105,000 people in 1990. A July 1991 survey of grocery programs only—this does not include the meal programs or the distribution of food vouchers—revealed in just that one month a total of 18,275 people were served. Of these, 44% or a little over 8,000 were children. Richard would like to talk a little bit about housing now.

M. Monette : Comme je l'ai mentionné, je suis de la Basse-ville d'Ottawa. Dans la Basse-ville il y a plusieurs abris, c'est-à-dire des lieux où les personnes itinérantes peuvent passer une nuit.

Ce qui est frappant aujourd'hui c'est la température, entre autres. Traditionnellement ces abris-là sont à pleine capacité, surtout l'hiver. Quand il fait beau comme aujourd'hui, on ne s'attend pas à voir ces abris-là pleins. Mais le cas est le contraire : ils sont à pleine capacité presque tout l'été, alors on se demande ce qui va arriver cet hiver.

Il y a différentes raisons pour ça. Entre autres, il manque des services d'appui pour les gens handicapés au niveau mental ou physique. Il y a une insuffisance de logements pour les personnes qui sont toxicomanes, par exemple. Mais il y a aussi un grand besoin de logements abordables et adéquats pour les personnes célibataires. La municipalité régionale a une liste de plus de 1200 noms de personnes célibataires qui auraient besoin d'un logement subventionné, et cette liste-là augmente de 100 par mois.

D'autres statistiques, si vous voulez : la moyenne de nuits passées dans les abris est de 10.2 par individu par mois. Les bénéficiaires de prestations familiales sont ceux qui demeurent le plus longtemps dans ces abris. Aussi, les hommes âgés entre 50 et 60 ans sont ceux qui restent le plus longtemps, tandis que les moins de 20 ans et les plus de 60 ans demeurent le moins longtemps.

Quant à la situation du logement en général, au niveau de la municipalité régionale on estime que plus de 17 000 ménages éprouvent des difficultés financières liées à la location d'un logement ; c'est-à-dire qu'ils vivent sous le seuil de la pauvreté tel que défini par Statistique Canada,

mais aussi qu'ils doivent déboursier plus de 30 % de leurs revenus pour se loger.

Au mois d'avril 1991, pour la ville d'Ottawa on estime le taux vacant des logements à 1.1 %, et la Société canadienne d'hypothèques et de logement déclare qu'un taux de 3 % est souhaitable. La région d'Ottawa n'a pas connu un taux de 3 % depuis 1980.

Enfin, qu'est-ce qu'on peut dire des milliers de personnes qui sont limitées par leurs revenus et qui doivent habiter un logement non conforme aux normes minimales d'habitation ? L'économie de notre province et le bien-être de notre société exigent que les ménages ontariens aient accès à un nombre suffisant de logements abordables et appropriés et convenant à leurs besoins variés.

Ms Tolton : I am going to speak just a little bit about our reaction to the budget. What we have tried to lay out for you here is the reality that the community resource centres and health centres face on a daily basis. This is really the human dimension of budget planning. This is also the reality that the province has to deal with.

Before we go any further, we want to share with you a short video clip from a meeting that took place last March. Members of the coalition, along with 100 community members from Ottawa-Carleton, most of whom are recipients of social assistance, travelled down to Toronto to give a response to the Back on Track report and have some input on that before the budget came around.

[Video presentation]

Ms Tolton : Actually, the final statement that came out of that meeting is attached to the back of the written submission, if you want to take a closer look at that. We will not be going into any more detail, but it is there for you to look at.

Ms Hunter : It is actually the separate blue sheet that we distributed.

Ms Tolton : The coalition sees the provincial budget as an effort to invest in the people, Ontario's most valuable resource. What we see in this budget is what the coalition has believed in for some time, that progressive programming is a good investment. We certainly do not like the idea of government deficits in depth, but as any business person knows, sometimes a debt is a necessary prerequisite to a long-term gain.

In particular, we were really glad to see that money was spent and put into social assistance reform, into increasing the amount of affordable housing, into increasing support for community health centres, into providing services regarding violence against women and sexual assault, and into increasing the minimum wage. The coalition is very, very encouraged by the direction of this budget and urges the government to keep up this commitment.

Ms Hunter : It is easy to say that we think that what you did is a good investment because it is what we wanted to see done, but we want to give you a bit of the reasoning behind that. We think it is a good investment for two major reasons.

One is an argument I think you have probably heard a number of times, that is, the pay-now-or-pay-later argument. We think that while Ontario may now have a financial

deficit, Ontario already had a social deficit before that. We had children growing up in poverty. We also have adults living in poverty, but children, as we all know, are the future and if they grow up in poverty, they are going to be hungry. They are not going to learn as well. They are going to get sick more often and they are going to miss school. The chances are pretty good that they are going to drop out at a much higher rate than children who live in families that can afford food and can afford stable housing.

There are some very definite concrete costs when kids drop out of school. Richard Shillington tried to articulate those costs. He said that over 20 years, these kids dropping out of school are going to add \$1.4 billion to UIC rolls. They are also going to cost Canada \$9.9 billion in forgone taxes and reduce the national economic productivity by about \$23 billion.

That is a lot of cost. It is not just the cost of paying for them to go to see doctors, paying for mental health problems and paying for problems in the criminal justice system. It is cost in what we lose in terms of what we are not contributing as well.

The other argument we would like to make is that investing in social policy is an opportunity as well to create assets; it is not just to avoid losses. First, a lot of social programs go to keep people functioning independently in a stable home environment. I am sure we have all moved before, and you know how hard it is to kind of keep on top of your work the week you are moving and to find the work you took home the night before, and it is in one of the boxes. Try to imagine doing anything productive if you are homeless and you are moving every night. Try to imagine how you prepare yourself for a job interview, how you manage to care about who you vote for in an election, how you manage to maintain any of your civic responsibilities. It is just not possible. Unless we can keep people housed, with an adequate income so they are not worried about food, then we are not going to be able to draw on those people to participate productively in paid employment or in any other way in our society.

Equally, it has been shown around the world that poverty and environmental degradation go hand in hand. Where you have poor people, the environment suffers. The environment is a resource that none of us believes that we can afford to lose or to use up. Dealing with poverty will help to respond to that.

In the past, economists had some stake in maintaining a level of poverty in society because poverty provided cheap labour. But our economy has changed, the nature of work has changed. We do not need cheap, unskilled labour; we need people who have initiative, who have creativity, who have skills to offer. That is what makes us competitive. That is what supports our economy. We will not get that from poverty. If we invest in preventing poverty, we will get it.

The one other point, I guess, is a fairly specific one, a fairly obvious one, that a lot of social programs do go to giving people those skills, getting them into the workforce for the first time or helping them get retraining so they can re-enter when their jobs have become obsolete or when they have been disabled and need to learn a new career. That is a very direct investment there. You spend, maybe,

one, two or three years training someone and you get 20 or 30 years of a productive, taxpaying employee out of it.

Ms Tolton: I am just going to finish off with some recommendations for the committee. As a result of consultations with community members across the Ottawa-Carleton region, it would have been possible for us to provide a very long list and to have talked strictly about these recommendations. However, throughout these consultations there were a few points that became very high priorities for the community members.

M. Monette : La première recommandation est que le gouvernement continue à investir des ressources provinciales au niveau des politiques sociales.

Ms Tolton: Second, that the government immediately implement the remainder of the recommendations in Back on Track, expedite the legislative changes necessary for reform of social assistance and adopt the recommended market basket approach to determining welfare rates.

M. Monette : Troisièmement, que l'on augmente le financement destiné à des logements abordables.

Ms Tolton: Fourth, that the government continue to respond to the need for services aimed at preventing violence against women and sexual assault.

M. Monette : Cinquièmement, que l'on augmente les appuis en matière d'emploi dans les domaines suivants : le recyclage, les garderies abordables et aussi les augmentations des salaires minimums.

Ms Tolton: Finally, that there be a continued commitment to not pass costs on to the municipalities as the federal government did to the provinces.

Just before closing, we had just a few quick comments on the process of the budget hearings. The Coalition of Community Service Centres is a very strong advocate for public participation and community consultation, but we see this as a process which is much more useful before decisions are made. Finally, the purpose of the consultation should be to get public input and not create political backlash, as well, after decisions have been made.

Ms Hunter: Having sat here yesterday and watched another coalition that Centretown Community Health Centre is involved in at present, I would like to add that these groups, especially Centretown Coalition yesterday, have very limited resources to put time into this and they put a lot of effort in.

A young woman came out and I think showed quite a bit of personal courage talking to this group about her own situation in being on social assistance, and I was really disturbed that there were several people who talked through her presentation. It is not very easy being in her position, and I really feel that that was disrespectful of her contribution, especially given that you invited us.

The Chair: At the very beginning, I had talked to the three groups to make sure that they put their presentation across to the government, that we are here to listen to what the people of Ottawa are saying. I know there is not much time left, but do we have any questions? Mr Villeneuve.

Mr Villeneuve: Yes, just a couple. This is a very interesting pamphlet. I live very close to Ottawa, and some of

the statistics are very alarming. Slightly more than half of all poor children live in two-parent families, 78% of all poor families with children have only one or two children, and 55% of the household maintainers under 25 years of age are poor. What is the date of these statistics?

Ms Hunter: Those statistics range in date from 1986 to 1989.

Mr Villeneuve: Those were very buoyant economic years. We are now in some of the leaner years, recession times. I would think that these statistics are now on the low side, so there is a mountain of a job to be done out there.

The Other Side of Fat City is not a misnomer at all with those statistics. I do not know, I am in a quandary. When statistics like this come out following good times, what are they going to look like in 1992? That is all I have to say.

Ms M. Ward: I could ask a number of questions and make a number of comments, but we do not have much time and my comment really was to the first group, the Sandy Hill Health Centre. I do not have a question. Really, I wanted to congratulate you, and the group presently at the table might want to comment on it too.

I had not heard before of a program such as your health for the homeless program. Perhaps there are other areas that have this. I have not heard of that being run in Toronto where I come from, and I just wanted to congratulate you for that.

I think that is a service which is of a great deal of importance, because probably one of the reasons people are homeless may have to do with health problems, what has driven them there in the first place, through job loss and so on. I do not know if someone on the panel at the present would like to comment or not. My purpose was to say congratulations on that and hope that you continue.

Mr Monette: As far as the Ottawa region goes, I think we must thank a lot of the religious groups that do this type of work. They get a per diem rate from the regional government for each person who stays overnight. They are doing a wonderful job, but social services are involved also, and we try to help these people along and refer them to employment programs, etc.

Ms M. Ward: I think one of the ladies from that group is coming up. It must be fairly difficult letting people know about the service, for one thing, is it not?

Ms Muckle: I am the chairperson currently of the health and the homeless committee here in Ottawa, and I would like to give credit, actually, to the city of Toronto. Street Health is a similar program in Toronto which has very different roots but does similar types of work to what health and the homeless does here in Ottawa.

I think probably one of the major differences between our two programs and between our two cities is that here in Ottawa we were able to put together a very, very interesting group of organizations and people who are all working together towards the same objectives.

Currently our committee consists not only of staff from Sandy Hill Health Centre but from other health centres across the city that deal with the homeless. We have the partners that we had originally, which include the public health department, regional social services and the Royal Ottawa

hospital, but in fact many of the shelters currently here in Ottawa are extremely active on that committee.

As we go into the fall, we are tackling what we think are very exciting new programs to try to get a better handle on some of the diseases and things that are plaguing not only our homeless population but, in fact, are posing a threat to the health of the community at large.

Ms M. Ward: You do have a fixed base, also. You have a mobile unit and a fixed space where people are coming.

Ms Muckle: Yes. Perhaps I can describe to you a little bit about how the program works. From the health department and from Sandy Hill Community Health Centre, we were able to take the initiative to put together resources, so in fact we decided that we would be equal contributors in terms of human resources to the program. We all contribute an equal amount of nursing hours to actually go out and work in the shelters.

The work in the shelters is complemented back at our health centre, we being fairly close in location, but the nurses also assist clients in accessing services at local hospitals, at other types of health organizations, like Ste-Anne's clinic or the Elisabeth Bruyère family medical centre there. We do not provide exclusive care to the homeless, but we try to be a way of accessing different kinds of services.

At our centre in the past year we were very fortunate to receive funding to open a walk-in clinic. Our walk-in clinic operates the same hours as our regular clinic does, and it is available to people without an appointment. It is not exclusively a service for the homeless or for the psych-disabled or for street people and street youth. That is who it is funded for and that is how it is organized, but we welcome our middle class and upper middle class. We welcome any of our clients to use that service when they want to. We do not have a desire to discriminate.

They are able to receive urgent medical care at that time on their terms and it is our hope, and it has been our experience, that after they have come to our walk-in for a few times, they do hook up with the centre and they get involved with more and more of the services. In fact, we have had what we think are very gratifying success stories come out of this whole program.

The Chair: Ms Ward, I would like to give Mr Morin a few comments.

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M. Morin : Pour l'intérêt de ceux qui nous ont adressé la parole en français, j'aimerais vous rendre la pareille. Nous avons eu l'occasion depuis ces deux derniers jours de rencontrer au moins quatre ou cinq groupes semblables au vôtre, tous avec un message qui est très clair.

Dans les temps tels que le présent, il est excessivement important pour tout gouvernement de se pencher sur un problème qui appartient à nous tous. Le problème maintenant est beaucoup plus aigu à cause de l'économie chancelante. Nous passons dans une récession. Nous entendons des commentaires des gens qui disent, parce que l'économie est mauvaise, parce qu'on a créé un déficit, qu'il faudrait réduire les soins qu'on donne aux gens qui sont dans le besoin.

Laissez-moi vous assurer que je ne suis pas d'accord du tout avec cette philosophie. C'est une obligation morale pour tout homme politique de vous écouter et de vous aider. C'est une obligation qui doit être confrontée quotidiennement, et si on ne le fait pas on manque à notre travail.

Une des raisons pour lesquelles je me suis joint à la politique, c'était pour apporter de l'aide à résoudre un problème auquel on fait face tous les jours. Alors, votre message est clair. Sans parler au nom de mes collègues, je suis certain que nous avons tous les mêmes désirs. D'ailleurs, auparavant notre gouvernement a apporté le programme Transition, qui est en continuation aujourd'hui. C'est nous qui avons apporté des changements pour les personnes âgées aussi, un programme qui a été accepté par tout le monde ; nous avons été louangés à ce moment-là. Alors, soyez assurés que c'est notre responsabilité de vous aider et surtout de vous écouter.

The Chair: Thank you, Gilles. I have been talking to some of my other colleagues. As Chairman, I do not have too much to say at times other than keeping order at the meeting, but some of my other colleagues from all three parties are saying that sometimes when we travel around the province—too bad we did not have longer to stay here in Ottawa so we could actually go out and see exactly what you are doing in the community.

I was watching the video for a very short period of time; I had other business to attend to. I think it relayed to this committee the work that you are doing here in Ottawa and I think you have to be congratulated on the work that you are doing here. I would like to thank you for your presentation before this committee. Thank you.

Ms M. Ward: If I might add, we agree with your recommendations. I speak for all our side, anyway.

PUBLIC SERVICE ALLIANCE OF CANADA

The Chair: The next group is the Public Service Alliance of Canada. Could they come forward, please? You have up to one half-hour for your presentation. I would like to welcome you here to the standing committee on finance and economic affairs on the budget review. For the purposes of Hansard, if you could identify yourself and your position. You may begin.

Mr Bean: Thank you very much, Mr Chairperson. I am Daryl Bean, the national president of the Public Service Alliance of Canada. With me is Steve Jelly, who is an executive assistant to the alliance executive committee.

First of all, I want to thank you very much for the opportunity to appear before you. I want to say that in our view, on April 19, 1991, the Treasurer of Ontario and Minister of Economics repudiated the right-wing economic agenda of the Mulroney government. In doing so, the government of Ontario has spurned the confrontational economics of the federal government, spurned the hysteria rampant in Ottawa and charted a new course out of the recession that is gripping Canada.

On behalf of the 170,000 members of the Public Service Alliance of Canada and particularly the 80,000 who work and reside in Ontario, I should like to publicly applaud the Ontario government for its fiscal integrity and

fortitude in presenting an enlightened budget designed to help those hardest hit by the recession.

In less than a week, over 100,000 members of the Public Service Alliance of Canada will be in a legal strike position. The anticipated strike will be a direct consequence of the Mulroney budget of February 26, 1991. Those who criticize the Ontario budget for not following the federal lead and attacking the wages and job security of government workers should understand that ultimatums and confrontation will not spur economic recovery.

It is an undeniable reality that most strikes disrupt economic activity. I regret that the impending strike by PSAC members will undoubtedly hurt the Ontario economy. However, I personally believe that the short-term disruption of the economic activities and services to the Canadian public that will ensue during our strike pales in comparison to the long-term disruption that continues to occur as a result of the federal government's inept economic agenda.

Wage controls are but one manifestation of the federal government's inability to manage the economy. Other manifestations include high interest rates, the goods and services tax, free trade, and cutbacks in federal commitment to fund provincial social assistance, health care and post-secondary education, all of which, coupled with a tax system which is unfair, have conspired to generate the current recession and worsen its effect on working people.

In their respective 1991 budgets, the federal and Ontario governments had the option to either fight the recession or fight the deficit. On February 26, 1991, the federal government chose to fight its own deficit by imposing severe spending limits on government operations. As was noted by the Ontario Treasurer in his April 1991 budget, the federal government's budget posture reduced federal transfer payments to Ontario by \$1.6 billion below previous commitments. Despite this shortfall, the Ontario government chose to fight the recession rather than its own deficit. In our opinion, the Treasurer made the right choice.

As is well known to all members of the committee, the current recession has devastated the Ontario economy. Employment has fallen by over 250,000, while unemployment has risen from 5% to the 9% range. As was inevitable, the recession has had a double impact on Ontario's fiscal position. Both impacts, declining revenues and increased expenditures, are negative. To wish these impacts away, as critics of the budget seem to imply, would be to force the victims of the recession to endure even more hardship than they already face.

By choosing to fight the recession rather than the deficit, the Ontario government made a conscious decision to cover its reduction in expenditures passed down to it by the federal government. Despite revenues that are expected to be some \$435 million less than last year, the government faced the prospect of a 40% increase in social assistance costs to some \$4.9 billion. While it is undoubtedly true that the Ontario government's projected \$9.7-billion deficit is large by historical standards, it is not, in my view, overly excessive in the context of the current recession—a recession, I would add, that was foisted upon the Ontario economy by the federal government.

Moreover, on a per capita basis, Ontario's projected deficit is low in comparison to many other provinces and the federal government. At what one would hope is the tail end of this recession, Ontario is projecting a deficit of \$9.7 billion, which represents some 18.6% of its total spending and slightly less than \$1,000 on a per capita basis. Following the last recession, both Alberta and Saskatchewan increased deficits to more than 30% of spending at a per capita cost of \$1,713 in Alberta and \$1,188 in Saskatchewan.

In reality, at the time the Ontario budget was introduced, there were and are today only two alternatives to the projected deficit. First, the government could have increased taxes at the personal and corporate level. Such an approach was rightly rejected because it would ultimately worsen and prolong the recession. It should be noted as well that the massive tax grab by the federal government in the aggressive goods and service tax has reduced the ability of all other levels of government to balance revenues and expenditures by way of tax increases.

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Having rejected tax increases as a means of reducing the projected deficit, the Ontario government was left with only one alternative, spending cuts, which is, I suggest, the real agenda for those who argue that the deficit should have been smaller. As the president of the Public Service Alliance of Canada, the largest union in the federal public service, I have experienced firsthand the enormous dislocation that results when governments try to contain the deficit by so-called spending restraint.

Since the Conservative government assumed power in 1984, the federal government has reduced its employment by fully 13,000 people. Today the federal public service is smaller than it was in 1973, despite the fact that Canada's population has increased by over 20%, despite the fact that the programs and the complexity of programs have increased in the federal public service.

As a direct consequence of spending cuts, service to the Canadian public has declined drastically, as has the morale of federal government workers. As a result of staff cutbacks, it now takes Health and Welfare Canada fully three months to respond to routine pension inquiries from senior citizens, while Employment and Immigration is doing well to process employment cheques—I should say the unemployment cheques—in nine weeks, for the unemployed.

The inability of society to provide in a timely way benefits that Canadians need and are entitled to can have tragic consequences. In the fall of 1990, PSAC initiated a commission on federal public service morale. Throughout the commission's public hearings, we were made aware that tensions between employees and clients in the direct day-to-day delivery of service have reached the point where verbal and, yes, unfortunately, even physical abuse of government workers is becoming increasingly common.

Over the past seven years, the federal government has gone to great lengths to cut its spending regardless of the economic and social consequences of its actions. My union has and will continue to oppose the arbitrary and in many cases draconian way in which spending has been reduced. Given this, it may surprise some members of your committee to learn that PSAC is not opposed—I emphasize not

opposed—to looking at ways to make government operations more efficient.

In the federal sector we have, for example, called upon the government to initiate a full-scale parliamentary inquiry into the practice of contracting out. Since the current government assumed power in Ottawa in 1984, the federal contracting-out budget has swelled from \$2.7 billion to over \$5 billion annually. We have documented cases where the practice is less cost-efficient than the provision of service by government workers. Unfortunately, the expansion of contracting out continues despite the fact that it undoubtedly costs taxpayers more than if the service was performed in-house, because it allows the government to claim that it has reduced employment levels.

While it is undoubtedly true that government expenditures can be made more efficient or reallocated to provide a greater public benefit, such assessment and reallocations should not be undertaken exclusively by the government.

Once again, the Ontario budget is clearly distinct, refreshingly distinct, from the practice of the Mulroney government in Ottawa. While the Mulroney government has arbitrarily cut spending, employment and service to Canadians, the Ontario budget states that the government is convinced the only way we will achieve effective fiscal management is through a comprehensive review and evaluation of existing programs, with the participation of the people who use services and the people who provide them.

When the federal Conservative government assumed office in 1984, it established, as a priority, reform of the income tax system. Like most Canadians, members of the Public Service Alliance of Canada welcomed this initiative, because it had become clear that the system had become unfair in a great many respects. A not-insignificant number of profitable corporations were paying no income tax and consumption taxes were penalizing lower income earners and were increasing. The share of revenue derived from personal income taxes and consumption taxes was also increasing.

Over the seven years the current federal government has held office, the tax system has become even less fair. As a result, the alliance welcomes the establishment of the Fair Tax Commission by the current Ontario government. The appointment of Susan Giampietri, an executive vice-president of the alliance, as a fair tax commissioner was particularly welcome.

Given the participatory structures that have been put in place by the Ontario government with regard to tax reform, I would expect future budgets from the Ontario government to accelerate the move towards greater tax fairness and equality.

In his April 1991 budget, the Ontario Treasurer made a conscious decision to fight the recession that has devastated the Ontario economy and imposed undue hardship on thousands of people. Rather than initiate significant tax increases that in all likelihood would worsen and prolong the recession, the government chose to allow the deficit to rise. The Public Service Alliance of Canada believes that the Ontario government made the right choice.

Unlike the Mulroney government in Ottawa, the Rae government has said to the victims of the recession that it is there to help. By maintaining the social safety net, despite critical underfunding from Ottawa, the Ontario government

has set an example that should be followed by other governments. Similarly, by rejecting the wage-control and employment-cutback program of the federal Conservative government, Ontario has rejected the politics of confrontation in favour of negotiation. All Ontarians should be proud of their government.

Mr Villeneuve: Thank you very much, Mr Bean, and your association for having brought forth this document. I guess I will not ask you what political stripe you support. I think the last statement was fairly clear on that.

You suggest that the provincial government continue to, I guess, deficit finance. You are suggesting that is the only solution. Yet you chastise the federal government rather seriously for having done that. I know you will have a response that one government is oriented in one direction, in your opinion, and the other government is oriented in another direction.

However, we are all Ontarians and we have to support our share of the federal deficit. We have to support our share of doubling the provincial deficit in less than four years, or in four years. Ontario Hydro has a deficit of about \$30 billion. WCB has an unfunded liability of some \$10 billion. We as residents and taxpayers of this province are all responsible for that.

What do you think will happen, come next election time, and if indeed the socialist government is or is not re-elected, do you think that it can continue doubling the deficit, the total debt, every four years?

Mr Bean: Let me answer the question you did not ask in the first place. Sure, I make no apologies for the fact that I am a New Democrat. I would also point out to you that my union does not support a political party and I am here representing the union.

As far as the deficit goes, yes, everybody should be concerned about the deficit. But you cannot be concerned about the deficit in a time of high recession. Somebody must be helping those who need help and who are hit worse by the recession. I believe it is the right direction now. I am not suggesting, by any stretch of the imagination, that the Ontario government, no more than I would suggest that the Saskatchewan and Alberta governments, should continue to always run a high deficit.

Again, I suggest that they have done the right thing by instituting a study and working with the people who deliver the services as well as those who receive the services. That may well find some inefficiencies within the system. And I applaud that very much. I wish we could have this government in Ottawa undertake the same commitment. They go out and they have something which they call public service 2000. They talk to the managers. They do not talk to the people who deliver the service. They do not talk to the union which represents those workers, and that is not a way to address the situation.

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We have a government here in Ottawa which has increased the contracting-out budget from over \$2 billion to over \$3 billion. I could tell you where most of it came from. Most of it came from the cutback of 13,000 positions. Most of it came from the fact that the workers who are

carrying out the work are having to train on a daily basis contract employees who come in, term employees who come in. Most of it came from the fact that the work that is being carried out by the contractors is done in an inefficient manner and at more cost, as well as having our own employees having to redo the work and correct the work.

So I am not suggesting by any stretch of the imagination that the Ontario government should continue with this high deficit. Naturally, as the economy improves, they should well start addressing the deficit also and bring down the deficit and eventually, whatever period of time that is, get a balanced budget.

Mr Villeneuve: Well, I am not sure I am unhappy with the reduction in the numbers of civil servants in light of what you have just said, and I realize that someone has to train people. I know Hansard cannot record this, but I will just mention it for Hansard purposes that you have on your lapel a pin that says, "On strike alert," and I suppose that is your right and your privilege. Many people in this country say, "You, as public civil servants maybe should not have that particular right." But in light of all this, I as a taxpayer see the contracting out as possibly a bit of a cushion against people such as PSAC who at present are on strike alert. Maybe you can comment on that.

Mr Bean: First of all, yes, we are on strike alert. We have tried to negotiate with this government since February. This government has taken a position which has simply said, "If you accept zero, a wage freeze, up to three, after you accept that we will talk to you about non-monetary and operational issues. After we get through with that we will talk to you about monetary issues, and should it cost any money—of course, if we agree to anything it has to come off the 3%. We will not deal with job security. We will not deal with pay equity despite the fact that this union, in a joint effort between the government and this union, participated in the equal pay study. Despite the fact that this equal pay study required two thirds of the committee members to agree to a rating, this government has chosen not to pay equal pay for work of equal value."

They say we should not deal with it at the negotiating table; it should be dealt with through the Canadian Human Rights Commission. Well, we have been trying to deal with it since 1984 there—for seven years. Rather ironically, the same day that this government is responding to the conciliation board reports which are favourable to the union, it is saying the government is in the court challenging the right of the Human Rights Commission to deal with pay equity. So they say, "You can't deal with it at the negotiating table, you should deal with it at the Human Rights Commission," but then goes to court to try and stop them. Somewhere, somebody has to deal with it. Again, it is the law of this country, and yet they have been found guilty by the Canadian Human Rights Commission of violating that law. The only thing the tribunal is doing now is trying to determine what amount of money.

As for the right to strike, first of all, I do not know where your polling has been or where you have taken your information from, but the majority of Canadians do support the right to strike. The majority of Canadians do.

The Chair: I am sorry, I have to cut you off and go over to Mr Sutherland.

Mr Sutherland: Thank you, Mr Bean, for your presentation and talking about the politics of confrontation versus the politics of negotiation and participation and empowerment in the decision-making process. I was wondering if you can maybe just comment a little more in terms of where staff morale is, and we have some time left; if you want to continue on in response to Mr Villeneuve's question, feel free to do so.

The Chair: No, I'm sorry.

Mr Sutherland: Oh, we will not be?

Mr Bean: No, I wouldn't do a thing like that. That would be against the rules. I always abide by the rules.

Mr Sutherland: Oh, sorry.

The Chair: Go ahead with your question.

Mr Sutherland: No, I am done with my question. It was just on morale.

Mr Bean: Staff morale has hit an all-time low in the federal public service. That is not me talking; that is the membership, the workers, studies that have been taken by management. You can ask anybody anywhere in the federal public service. The staff morale is at an all-time low.

Part of it is caused by the fact that they have accepted wage increases below the cost of living for the last seven years; below, by the way, what the private sector has been paying; below what the provincial and municipal governments have been paying across this country. They have seen the downsizing reach the stage where, as I mentioned, there are verbal assaults going on on a daily basis and there are actually physical assaults. Rather than trying to staff the offices so that they can deal with the unemployed people coming in, they build plexiglas with a little hole in it so that the unemployed people who are so frustrated and so angry cannot get in and wring somebody's neck. I suggest that is not the way that we will get out of a recession. That is not the way that we will have Canadian people with tolerance and understanding, which we certainly need at this stage.

I want to indicate to you that certainly, again, we are not anxious for a strike; our workers are not anxious for a strike. But when you are left no choice, when a government refuses to negotiate, when it dictates and says, "If you don't agree, we'll legislate you anyway," then you are not left with a whole lot of choice but to fight it, and the only way we can fight it is through a strike.

You can legislate away strikes—there will be strikes. You can legislate collective agreements. What you cannot legislate is that workers will go back and do a good job. You cannot legislate that. They are only going to do that if they feel they are being treated fairly and their morale is high.

The Chair: Okay, I would like to thank you, Mr Bean, for your presentation before our committee on behalf of the Public Service Alliance of Canada.

FAMILY AND CHILDREN'S SERVICES
OF THE COUNTY OF LANARK
AND THE TOWN OF SMITHS FALLS

The Chair: The next group is the Family and Children's Services of the County of Lanark and the Town of Smiths Falls. Would you come forward, please? You will have up to half an hour for your presentation and in that period of time if you can leave some time at the end of your presentation for questions and answers by the three parties.

I would like to welcome you, and if you could identify yourself and your position for the purposes of Hansard, you may begin.

Mr Tyson: Thank you very much, Mr Chairman. My name is Chris Tyson and I am the treasurer of the Lanark county and the town of Smiths Falls family and children's services. On my left is our president, Larry Paul, and on my right is Suzanne Geoffrion, who is our executive director.

Mr Chairman, ladies and gentlemen, we are here to talk about what we believe to be a serious crisis in children's aid, not just in Lanark county but throughout Ontario. As treasurer of family and children's services, I have become familiar with, or in part familiar, and I will make no excuse for that, with the many complexities and challenges of the child welfare business. I say in part familiar because it is an extremely complex environment and the way it is funded makes it even more complex.

We live in an environment of increasing child population, of increasing family violence, of economic stress, and changes in family arrangements which are having a major impact on our organization. The 1990s, the last two years, have brought unprecedented growth in service volume. Service volume—that is the number of children for whom the society has to investigate allegations of abuse or the number of children brought into care.

This trend is being experienced by the majority of child welfare agencies in eastern Ontario and across the rest of the province. There are a number of documents around about these issues, but suffice it to say that the partnership between traditional family, the community and government to meet the needs of the majority of children in Ontario is no longer adequate.

We are one of 54 agencies, and we are mandated under the law. We have no choice but to investigate children who are or may be at risk. The two volunteers at this table and our executive director, the whole of the board of directors and all our staff under the law have no choice but to carry out our mandate whether we have money to do it or not. These children who are at risk can be emotionally, physically or sexually abused. There can be parents who are having difficulty in controlling their children, women with unplanned pregnancies who are considering relinquishing their children for adoption, adolescent runaways, families needing assistance with special needs, adult adoptees seeking information about their birth families.

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On the chance that some of the members of your committee do not know how we are funded, 80% of our funds come from the province and the remaining 20% come from the municipalities. There are two municipalities in our case, the county and the separated town of Smiths Falls.

We submit a plan every year to the Ministry of Community and Social Services, and our budget year is from January to December. Although this plan was initially intended to facilitate agency planning and development, in fact the service plan is our budget, which is adjusted annually by a predetermined amount. This year is was 6%.

It is interesting to note that we have just completed an exceptional circumstances review, which is a process which most agencies go through on an annual basis, and we have just requested for this year's 1991 funds another \$800,000, which is between 40% and 50% of our original budget allocation. This is all to do with increases in service we are mandated to provide. The whole process that we go through in funding needs drastic overhaul. Anybody who ran a business as we have to run children's aid, from a financial standpoint, would be out of business. We will not know until next March what the allocation of any moneys which we are given under the exceptional circumstances review will be. Before then, we are mandated to provide the ministry and the municipalities which fund us with our budget. It does not take much to show that this system is out of whack. We have a severe process problem.

Not only that, but when we go to the municipalities, after we have been granted money under the exceptional circumstances review, we will go to them next February and say, "Oh, by the way, last year"—and they have finished their budgets for last year and are now writing their budgets for 1992—"we want another so much money, so many thousands of dollars from you." So, we look as if we are totally out of control. That is not the case. The process is out of control, not the agency. As a municipal councillor myself, I feel that it really is time that the province got its funding process in order so that it fitted within the other funding processes of the other agencies which fund this type of activity.

I have already mentioned that we are growing very rapidly, and we recently had—and I am going to divert from my script—a planning session, trying to look forward five years into the future. It was quite clear that we only had available to us, we could only plan for, funds to do with protection, that which we are mandated to do. There is no way that we could sit down and plan for prevention, which is really what we ought to be doing. We should be trying to put ourselves out of business. Now, whether we ever will or not is a different matter, but we should be trying to put ourselves out of business, and every member of the staff of our organization and the volunteers would agree with that statement. We do not want children in care. We want to remove the reasons for it.

We have severe budget problems. As I said, we have just applied for, just asked for, with the assistance of the ministry staff, an \$800,000 increase for 1991. With this sort of process, it is virtually impossible to plan effectively and monitor expenditures. I do ask this committee to do whatever it can to assist a process already under way, to speed a process already under way, to get the process of funding for family and children's aid changed.

I am a volunteer on this committee, and my belief is that the province is taking advantage of the volunteers by not providing them with a process and structure in which

they can effectively do their job, which is to set policy and to provide local input into the process. We spend more time than enough trying to find out how we are going to afford to fulfil our mandated requirements when what we should be doing is trying to improve the quality of our services and to provide prevention programs.

In two cases, in Kawartha-Haliburton and in York, in one case the board threatened to resign and in the other case the board did resign. I must say that when I heard about what the ministry did to overcome the board that had resigned I thought all it was doing was skirting the problem. The problem is lack of funding and the process of funding. We have written to the minister and we have not received an acknowledgement. We wrote in March presenting our concerns when these two boards asked the ministry for help; otherwise, they threatened to resign. We did not threaten to resign as a board, but we seriously discussed it, because you are putting the volunteers—you, the government and the ministry—in an untenable position. You would not be in it, ladies and gentlemen.

We also keep in touch with our local MPP Leo Jordan and with the NDP committee in Lanark county and with the Liberal Party membership in Lanark county. We do not hesitate; we are a non-partisan organization, right, very deliberately, because we believe that everybody should be informed because there are kids—and they are our kids, not your kids, if you see what I mean.

The Ontario Association of Children's Aid Societies has presented a document on the funding crisis, and it concludes the system is in crisis because of the funding structure on process. I have discussed that; inequitable and inadequate funding levels across the province, deficits and cash flow problems. Ladies and gentlemen, the one hope I could ask you to do is please speed the process. That would be all I can ask, I think.

We do have an excellent relationship with our local regional offices, and they do dig us out of the hole every time we go into deficit because they have this particular year or that particular year the money to do it with. Had they not been able to do that, this society would have been \$400,000 in debt, and we have no means of supporting that level of debt. As it is, if we do not have cash flow, and we will not have cash flow at the end of the year because we will have used up all our allocation, we have to go into our own funds—which have been collected over the years since we were effectively a local orphanage society, in 1922 I think—which we would like to use to improve our programs outside the ministry's efforts, because the ministry will not even pay the interest on the loan for the money we have to borrow because we do not have enough from the ministry, and that is a farcical situation.

Last but not least, I would like to suggest to you that we would mention the current roadblocks in the provision of mandated services. I would absolutely support the first statement, inadequate salaries for child welfare professionals. The average salary in our society is about \$36,000 a year. I, in the computer business as an intermediate programmer in government, get more than that, and ladies and gentlemen, there is no question about the relative responsibility these two people have. The child welfare professionals have to

deal with much greater stress in everyday life and they have got to be extremely professional in their approach to make sure they help children and do not damage children.

1450

There are inadequate children's mental health services and anybody who has been listening to the review the radio has been doing on the Prescott case recently will know there was a long article on the radio yesterday about children's mental health service in the Kingston and, therefore, eastern Ontario area.

There is a funding issue over residential and custodial care versus in-home and community-based services. We in Lanark county are trying to find ways where we can assist setting up residential care services. I know it sounds as if I am contradicting the words in the presentation, but I am really not because we need group homes, locally, but more important, we need support systems to try to keep children in the home.

We have three problems: growth, which is outside our control, but we would like to prevent children coming into our care; the funding process, which is a bureaucratic problem; the dollars, which is your problem, and the impact the lack of dollars and the funding process has on both staff and volunteers.

Mr Villeneuve: I really appreciate your presentation and what you face up the valley is very similar to what we face in the area I cover, Stormont, Dundas and Glengarry. Maybe you could elaborate a little more, and there seems to be a problem in that the funding always arrives at the end of the year and you are working in a situation where you really do not know where your budget is, and yet governments are, for whatever their own reasons are, mandating some programs and some rules and regulations on you that are expensive and you have to abide by them. Yet the funding, in most cases, comes at the end of the year and it is not there in sufficient amounts.

I realize we are concerned here with the costs of government. However, I think we face a situation where children, I guess when they are 12 years of age or over, have a lot of autonomy and at times it makes life very difficult for the families who are attempting to look after them and for your people.

I have been involved in a number of cases where the OPP will not touch it. No one will touch it and I do not know where to turn to address the problem of a 15-year-old who is out of control. I am sure you have that very often. Maybe you can comment on that. I think there are problems in an urban area, but there certainly are problems in the rural areas that we sometimes do not bring to the fore.

Mr Tyson: Absolutely. We have discussed that problem. I am going to ask Suzanne to answer your question because she is the professional expert, I am not; I am the volunteer. But we have discussed the problem of what to do with a child at the age of 16. Here in Ottawa there was a very good radio article on a child who was literally in that situation with no one to help her, and what they did about it.

Ms Geoffrion: I think with the whole issue of how we serve older adolescents, or not so old when they are only 15,

the solution is simply a change of legislation. The Child and Family Services Act really limits our powers and limits the powers of the police so we are in the position—if you do not have the authority and the mandate through law and the child does not want to be helped, is not even capable of making the decision that he or she needs help, and you have parents who are sitting on the fence not sure what to do—where you are right, you are leaving those kids nowhere.

I think what has happened is we went from a piece of legislation in the early 1980s that did not give youth a lot of rights and we have gone to the extreme of giving them too many rights. It is right to have rights but you do not have any responsibilities, and in essence I think now many youth have the right, all right, to destroy themselves. So, great, that is a wonderful right to have.

We can all feel good about that but we do not have any power to do anything about it. So we are frustrated as an agency. As you note, parents are extremely frustrated and they bear the consequences.

In terms of the funding process, we submit what we call the service plan in February. We usually get a response from the ministry by June. That is sort of okay. This is where we are at. This is what our organization is. This is what we need. Unfortunately, for the last 10 years, it does not matter what you need. It is 4.5% or 5%.

The only avenue we have is through this exceptional circumstance review, if you can prove that you have volume increase. It is helpful, but it does not address base budget problems.

Mr B. Ward: Thank you for giving your presentation and your views on the concerns that you have. One benefit of taking this committee out on the road show is an opportunity for groups such as yourself to come forth.

Just a question on your concerns and constraints that you have been under from a financial and funding standpoint. I know in Brantford, probably for the last three years anyway, there have been concerns about the level of funding. That is my home town, the city of Brantford. In fact, I was on the children's board for one year in my capacity as city councillor, so I can understand some of the hoops that have to be run through.

This is not unique to this year. How long have these concerns been going on?

Mr Tyson: I came on to the board as a county councillor. I am not on the county council. I am a township councillor now, but four years ago.

Ms Geoffrion: Our first deficit was in 1988.

Mr Tyson: Yes, 1988, so I have been around ever since there has been a deficit. In the first year, we started talking about the process of funding as well as the level of funding. I think we have to separate the two very carefully, because although one has an impact on the other, if we got the process right, we could all see—politicians, volunteers and staff alike—where all the money was going, at the right times.

Mr Conway: I have a question for Ms Geoffrion and it has to do not with anything in Lanark county but two cases that are not too far away, one of which has been

referred to. I think in all the years I have been in public life, which is now 16, I do not think I have ever seen two or three cases that trouble me as much as the Alfred, Prescott and St George's case in Kingston, unbelievable commentaries on small-town, rural, small-city eastern Ontario.

I guess I would ask the question of Ms Geoffrion because the Globe and Mail, I think, did an interesting front-page piece on Prescott that caught my attention. I do not remember the article precisely, but it was a pretty shocking commentary about what seemed to have been systematic sexual abuse of scores of little children.

There were some interesting socioeconomic observations about how that might have happened, when it happened and where it happened. Not too many miles down the road, we have the Gallienne case at St George's in Kingston, which is in some ways even more stunning, and absolutely unbelievable.

My question, thinking of Alfred as well, is how does this happen, accepting all that you have said about the problems that we all know that you labour under? The St George's case and the Prescott case make me as a legislator, to say nothing of how I feel as a citizen, horrified and incredulous. How do those things happen to such a complete systemic extent in communities like Prescott and Kingston where you have simply got to believe that somebody knew?

Ms Geoffrion: I think we all have those feelings. I think they are horrendous cases. You have this frequency in eastern Ontario all of a sudden, but I think it is fair to say that this is not just happening in eastern Ontario; it is happening all over North America. I have certainly read studies that talk about it happening in Europe. I do not know. I have not done a thorough study, but I know that 10 years ago we barely knew the words "sexual abuse." I think these are practices that have gone on for centuries that we are just beginning to unravel. It is a real process of disclosure, which is slow. There is a strong process of denial. Even to this day, I know people in Kingston will say: "It is not true. It did not happen."

1500

Mr Conway: When I look at that Kingston case, and as I say the Kingston case really fascinates me because of St George's, if you know anything about St George's—

Ms Geoffrion: This is the choirmaster case.

Mr Conway: This is the Kingston elite. These are the sons of the professors, the newspaper publishers, the lawyers, and this was going on to quite an extent for quite a number of years. When you think back to some of the reports in the Whig-Standard—and I am a bit prejudiced, because I have some friends who are involved in that—I have to tell you there is a part of me, and it is not a very small part, that almost wants to say, "Before I give any more money to anybody, I want the most thorough and microscopic examination of what went wrong in Kingston, not before I commit any additional resources, quite frankly, but before I pay out any of the routine transfers." If I were one of those parents and if I were a taxpayer in Kingston, I would be just furious.

Ms Geoffrion: You realize that nobody ever disclosed. There was never any disclosure. The first incident

came as the result of a suicide of a child who was well over 18 years of age.

Mr Conway: My question remains though, how did we not know?

Ms Geoffrion: People knew. I think Kingston and St George's, it is you and it is me. It has nothing to do with my position. It is us as a community. Agencies reflect communities, and I think if anything, it is just a sad statement of the whole issue of how we deal with sexuality. We are picking up the consequences of many years of problems and we are not done. I think the disclosures are emerging more and more.

Mr Paul: I am the president of the board of directors, but my position in Perth is a Presbyterian minister. I have been involved personally with situations of this kind. I have been a minister for some years and I know it shocked me too, that these things have only started coming to light. Of course I hear about the same things that you have mentioned. I do not know whether these things have always gone on. I presume they have, but we have not heard about them. This is putting, I would say, one of the extra loads on the staff of our agency, because once one of these is disclosed, or two or three, it is endless energy and court time that gets involved. It is sad. I do not like to see this kind of thing, but I think we have to work to help, to see what we can do. Maybe there should be some more investigation. I agree with you.

Ms Geoffrion: I think you have to realize when you are investigating these issues, you are dealing with criminal law. Let me tell you, the onus for evidence is extremely high. We have a lot of cases where we know it happened. We will stand up in court and swear it happened, and the police and the crown attorney look at us and say, "Sorry."

Mr Conway: Just a final observation: Prescott and Alfred I think I can understand. That does not excuse it in any way, but for a lot of the children involved, there were not people to advocate. But in St George's, boy, I will tell you—

Ms Geoffrion: The priorities were not clear in St George's.

Mr Conway: The stuff that has been printed in the Whig-Standard really makes me wonder how well our essentially white, middle-class social agencies can cope with some of these situations. As for the story at St George's, there is a great book there for somebody to write, and when it is written, I will tell you, I think there may be some—

Mr Tyson: I did use one word and that was "prevention." One of the things we have no funding to do is do what you want us to do, find out the causes of it before it starts.

Mr Conway: My distinct impression is that bells were rung and people with good hearing did not hear or could not understand what they were hearing.

ALMONTE COMMUNITY DEVELOPMENT CORP

The Chair: The next group to come before the committee is the Almonte Community Development Corp. I would like to welcome you. You have up to one half-hour for your presentation. At the end you can leave some time for questions and answers from the three parties. If you do

not mind, please identify yourselves for the purposes of Hansard and your positions.

Ms Slater: I am here on behalf of the Almonte Community Development Corp and I am employed by them as their executive director. This is Nancy Fordyce, who is the residential director of our Mijiwan group home. Unfortunately, one of our board members was going to be with us but is on holidays and was not able to make quick changes in plans.

I have given you documentation that outlines the issues we wish to speak to. I will just read from this document as none of you have had time to peruse it anyway.

The corporation's mission statement is to strive to enable all members of the community to remain in and be a vital part of their community. The Almonte Community Development Corp will accomplish this by providing residential and other supports and services.

Our short name is ACDC, because Almonte Community Development Corp is sometimes a little long on the phone, so bear with me. We are very used to it now but I know it is not as common in other areas.

ACDC is a private, non-profit corporation. It is controlled by a board of 14 directors. The board is responsible for all activities of the corporation and has regular meetings once a month. All members of the board of directors as well as some 60 other members of the community who serve on committees are volunteers working without remuneration.

The following programs are sponsored by the corporation, and I think you will see we are a fairly broad-based corporation in the services we provide. We have a seniors' apartment building of 50 apartments, some of which are geared to income and some of which are market rentals. We have 26 geared-to-income housing units and two group homes for the developmentally handicapped, one of which is a special support home that Nancy directs and which also has a broadly used family relief program. We presently serve 25 children and adults within the community who reside at home and provide family relief to those 25 clients. It is worth while noting that when we opened we planned on about six. That is the kind of demand we have actually taken in the home. Last, but very important, we also sponsor a home-support program for seniors in the Almonte and Ramsay township communities.

We have about 25 full-time staff and about 10 to 15 part-time staff. We are probably the largest private employer in Almonte as well as the largest private taxpayer. We work closely with Almonte town council and Ramsay township council, each of which has a representative on the corporation's board of directors. At senior government levels, ACDC deals with the Ontario Ministry of Community and Social Services, the Ministry of Housing and the Canada Mortgage and Housing Corp.

In the past few years, the corporation has become increasingly concerned about the situation of the developmentally handicapped person living at home with aging parents or struggling alone in the community. The corporation has many applications from these residents of our community, all with many and varying degrees of needs. Some require minimal supports, some require enhanced supports and some 24-hour care.

Many of the applicants and their families apply to us expressing their frustration with a system that appears to favour the residents in the institution for funding. Parents feel they have fought and worked hard for years to keep their son and daughter at home, and they also feel they have saved the government thousands of dollars in that process. Now they truly and desperately require help, the system is failing them. Government publications like Challenges and Opportunities only serve to raise their hopes that there may be some viable and positive alternatives. However, these hopes are crushed when these other options are not available when they need them.

That is not to say we do not agree with the direction of Challenges and Opportunities, we certainly do, but there just is not the funding to implement it, and it raises the anticipation of these individuals. They do not understand why they seem to be penalized for not having placed their child in an institution at an early age. They see new group homes being built that are almost always filled with people coming out of the big institutions, Rideau regional and places like that, and they say: "Well, we've been waiting for 10 years. How come there is nothing for our child? We are 70 years old." We strongly support the right of these parents and their children for appropriate and affordable accommodation and services.

It has appeared to those of us in the community that it is only through time-consuming and concerted lobbying that money is eventually found to support the client in a group home, supported independent living program or other appropriate arrangement. Those parents or clients who are not fortunate enough to have or be strong advocates simply fall through the cracks. There are applicants on the corporation's list who have been seeking alternative accommodation for 10 years or more.

One remark that was made by a mother at a recent meeting with us was that everybody talks to her about normalization and how wonderful it is for her son, but she is in her 70s and she says, "How normal is it for you to have a 40-year-old son still living at home with you and there to be no other alternatives for them?"

They are worried about what will happen to their son or daughter as they become increasingly frail or pass away, and justifiably so. Instead of enjoying the golden years of their lives, they are still supporting both physically and financially their child. What often happens is that a crisis takes place and the first available option is accessed. This is not what they want. They want to be involved in planning and determining what is best for themselves. It is important that in any budget decisions, the need of these community clients is not overlooked but is considered equally with the needs of the lending institutions.

1510

To try to raise an awareness in the government about this heart-wrenching need, the corporation has already sent an extensive packet of information to the Minister of Community and Social Services requesting that funding be identified for those community clients needing supports and appropriate housing. Today is another opportunity for us to voice on their behalf the frustrations of our community clients.

The corporation recognizes, as we all do, that the government coffers are not bottomless pits. But there has to be a more equalized distribution. Therefore, we would like to suggest that when funding is earmarked for a person moving out of an institution, there should be equal dollars identified for a community person. Many times this money may even be enough to serve more than one community person, and in more than one way. In this way, parents would see that there may be some hope.

Also, there should be a way for long-term planning to be implemented for the developmentally handicapped person. At present, the planning does take place, but when the time comes to put the plan into place there just are not any options available to them.

Because we are involved in so many different areas, we have a number of concerns, so I hope you will bear with me. As noted previously, this corporation is also involved in providing a seniors' home support program. Its mandate is to strive to enable seniors to remain independent in their homes for as long as possible. This is a very satisfying and rewarding program to be offering, as we see the real and very positive effects of our programs on our clients. The corporation was very pleased to note the Minister of Community and Social Services' recent announcement that all home support programs would soon be fully funded, after United Way and municipality funding. On that basis, we do not get any municipality funding—so hopefully it will be just after United Way funding.

This is a very welcome announcement, as our corporation is finding it increasingly difficult in a small town of only 4,100 people to fund-raise the moneys needed to run the program—approximately \$20,000 per year. The fund-raising requirements are starting to become a major part of the board's work. This is quite a change for the board, as it has been primarily concerned with providing the supports and services the community so desperately needs. Fund raising saps volunteer time and energy and detracts from the important work the corporation has been so successful at to date. You will therefore understand the pleasure with which we received the minister's news and we applaud you on that decision.

The corporation also applauds the government's initiative in the pursuit of its long-term-care reform. With our extensive involvement and experience with the senior population, we recognize how important it is to seniors to have their independence for as long as possible. We have seen elderly residents in our apartments who, as they become more frail, enter nursing homes simply because they or their families are afraid they may fall and hurt themselves at night and no one will find them for days. This problem could so easily be solved with a phone call to a home support program like ours. The program might have resolved their fear and problem by providing a daily telephone assurance check, or referral to a 24-hour medical alert service.

So many of these seniors and their families are still entering nursing homes on the recommendation of their doctors, without even meeting with the seniors' home support programs and other community services to see what alternatives may be available. These community-based

programs are experienced at keeping people in their community and their very philosophy supports independent living for the aged. Hopefully, as the reform progresses, this will become one of the automatic steps in the process and more of our "sage age" clients—this is a new name they have given to themselves in our area—will be able to happily stay at home a lot longer.

One caution we want to make, because of our experience with the developmentally handicapped, is that those of us who have dealt with both the developmentally handicapped and the seniors' population are really increasingly nervous about there being sufficient supports and funding in the community to serve the increasing needs of our population. These community supports are essential and there has to be sufficient money identified to meet the growing demand. This is where the system now collapses for the developmentally handicapped person. The reforms proposed will not work if the funding for these basic community services, and their anticipated growth, is not available. Already, our home support program is experiencing a growing demand for its services.

We see more and more existing programs being cut back. For example, the local hospital now looks to our program to see if we can offer transportation for outings for its chronic-care clients. The integrated homemaker program has recently added the requirement that a senior must require personal care in order to get assistance, which they estimate will cut new referrals by 40%. That 40% now come to seniors' home support program to see if they can get homemaking services. We are fortunate that we offer that service. Other home supports do not. What will happen in those areas? In addition, our foot-care clinic was started because the public health unit stopped providing the service and there was no one to fill the void until home support stepped in.

All of these new requests coming to our program concern us. We wonder what other existing services will be cut back and what our program will have to pick up. At present we have our volunteer staff to continue to deal with the increased demands. But this will not always be possible without increased resources.

As numbers of seniors requiring service increase, there must either be funding to support the existing services or for those programs to which seniors turn to replace supports they used to obtain from another source. Therefore, with the increasing numbers of seniors requiring support services, and the direction the long-term initiative is taking, please ensure that the grass-roots supports in the communities are in place and that a plan is developed for funding these services as demand increases.

One of the very welcome changes to the long-term care initiative made by the NDP government was to identify the need for the link between seniors' housing and seniors' support services. Members of the Ontario Non-Profit Housing Association and others have for many years identified concerns about the lack of recognition that non-profit housing has as a vital link in the provision of services to the senior. For so many years non-profit housing has been referred to as simply bricks and mortar, but we at ACDA have proven that seniors' housing can be so much more

than that. By providing the home support program to members of the community, including our senior residents, we have been able to enrich and enhance their lives. We have tenants in their 90s who have been able to stay in their apartments only because of our programs.

If the Ministry of Community and Social Services had not provided the funding for this program, we would never have had the staff time to provide these vital and necessary services. The corporation would be only a bricks-and-mortar agency and not a community development corporation which is increasingly able to look at the whole person and his or her needs.

It is very important, however, to ensure in the future that these ministries work more closely together—in our case, the ministries of Housing, Community and Social Services, and Health. The money can be earmarked in a budget for use for joint projects by the ministries. But it will not work unless there are some clear guidelines about determining which projects will be funded. As has happened in the past, and almost to our cost, we almost lost a project because of that. How do you determine which projects should be funded? What if it is a housing project where there are 200 seniors in desperate need of housing but yet MCSS determines that these seniors do not have a high priority for social supports or vice versa? We have to recognize that wherever there are communities of seniors, there will eventually be a need for these supports, that is, if long-term care continues.

The corporation would therefore like to suggest that it be a requirement of all new seniors' housing that these future needs be considered, that a long-term plan be established with the support of the ministries of Community and Social Services, Housing, and Health, and that these long-term plans be considered as and when strategic planning and budget forecasts are prepared.

The last point of concern we would like to raise is the use of volunteers. In the past few years, there have been increasing and worrying signs that the government looks to the volunteer sector for service provision. While volunteers are, and should continue to be seen as, valuable and important enhancements to programs that exist or are developed, it is very dangerous to build programs around skeleton staff while counting on volunteer help. There are limited numbers of volunteers available and those who are available are often tapped to the limit. In Almonte, with only 4,100 people, I think we are very fortunate to have as many as we do.

How do you ensure a consistent service if it exists mainly through volunteer help? How do you discipline volunteers if they arrive late and a program has to wait? Where do you find them all? We are finding it increasingly difficult to obtain volunteers. Programs like the Imagine campaign from the Canadian Centre for Philanthropy are excellent, but people today have less and less time. In addition, the women-at-home group, historically a source of volunteer help, is dwindling as more and more women return to, or are in, the work force. Therefore, we wish to caution you on the development of new programs that are dependent, either wholly or partially, on volunteers to exist. Volunteers should be seen as enhancements to a program, or as committee and board members.

We would also like to make a couple of suggestions about possible ways to increase the supply of volunteers. One idea is that recipients of unemployment insurance or welfare who are willing and able, be allowed to volunteer one day a week to a non-profit group. Not only would this provide the non-profit with some valuable labour assistance, but many would gain useful work experience, as well as a sense of purpose and meaning. We have had people in both those categories who have applied to do volunteer work, who have been told that they are supposed to be at home waiting in case they get a call, and should not be out volunteering. So we have had expressions of interest in that area and they just have not been able to follow through because of the rules. This training would cost the government nothing, but would hopefully provide a valuable opportunity to someone who eventually hopes to re-enter the workforce both in terms of skill development and work expertise. This is an idea of mine, but whether it will ever work—what about giving a person a charitable receipt for volunteer hours? I bet you would get an awful lot more people volunteering.

1520

In closing, I would just like to summarize the four points I am here today to speak to you about. First, when funding is earmarked for a developmentally handicapped person out of an institution, there should be equal dollars identified for a community person, and there should be a way for long-term planning to be implemented.

Second, with respect to long-term care reform, please ensure that grass-roots supports in the communities are in place and adequately funded and a plan is developed for funding these services as demand increases.

Third, it should be a requirement of all new seniors' housing that the future needs of its tenants be considered and a long-term plan established and that these long-term plans be considered as and when strategic planning and budget forecasts are prepared by the ministries.

Fourth and finally, a note to request that new programs are not dependent on volunteers for their existence, but that volunteers are seen as the very important enhancements to the program delivery or as committee and board members. In addition, we need to spend some time developing new ideas on ways and incentives to recruit new volunteers.

The board of directors and staff at the Almonte Community Development Corp believe that this corporation is a very unique and special entity. It is a group that will fight to meet the needs identified within its community, even those beyond the programs currently offered by the corporation, and which will continually strive to improve and expand upon these vital necessary services.

I think we are one of the few organizations that provides as many different services and in different areas as we do. As an aside, we were very fortunate this summer to get funding from the Ministry of Community and Social Services to hire some of our tenants' children—the tenants receive welfare or the people themselves were on welfare—and we ran a summer program for the children of the developments that was very, very successful. But it was that funding. It brought a lot of work experience to those children and really made a difference in their lives and also stopped a

lot of problems within our project. So we are always looking at new avenues of ways to enhance people's lives in our units. Thank you for letting me speak today.

Mr Sutherland: First let me just extend my congratulations. For someone who does not have that much familiarity with eastern Ontario, I must say these two days of hearings have certainly been enlightening and very encouraging—to see how many community-based organizations there are in eastern Ontario and the Ottawa area who are working to make their communities better and helping those people who are less advantaged or sometimes have difficulty helping themselves. I think it is a great credit to this part of the province that there are so many willing people, not only volunteers but dedicated staff people.

You mentioned developmentally handicapped and that you do some of the housing for them. What is the role of the Association for Community Living? In my riding the Association for Community Living basically tries to set them up in the different housing areas. Are you involved with that?

Ms Slater: We have an Association for Community Living in Lanark county. We have two other groups, ours being one of them, that also provide group homes for the developmentally handicapped. I think the idea was that there should be options available to the developmentally handicapped, as there should be to other people. With our organization, one of the very positive features of it is that we have seniors and families and developmentally handicapped, so it is sort of a very generic corporation. We are not just the developmentally handicapped.

We had one program, one of our group homes, that started about nine years ago, I believe. It was such a success that when we looked at this other group home, the ministry certainly supported us. We have an elderly gentleman in his 80s who is developmentally handicapped. The family chose to have him come to our community because of our seniors connection. We can provide services to that gentleman that we would not otherwise be able to provide.

Mr Conway: Should the Rideau Regional Centre be completely emptied?

Ms Slater: That is a political issue. I do not know if I want to get into.

Mr Conway: I respectfully suggest that that is a fundamental question of public policy.

Ms Slater: We have a number of individuals within our special support home who are severely physically and developmentally handicapped. Their lives have improved tremendously in the last two to three years since they moved. They were in Elmvale, which was another institution that closed. We had one of the young ladies pass away and the mother said those two years were the best two years of her life. We certainly as a corporation, I think, provide a quality program. We are always doing quality checks on our program. We link with many of the services in the community and our staff are extremely caring.

Mr Conway: I accept all of that and I know something of the very good work you do in north Lanark. My question remains—you are very knowledgeable providers

in this part of eastern Ontario: Should Rideau Regional Centre be completely emptied?

Ms Slater: I think if they can find alternative accommodation for those individuals that provides the services they require, then it is much better for them to be in a small home setting with those kinds of supports and caring staff than in a larger setting.

Mr Conway: To your assistant can I ask, is it your view that condition can be easily met?

Ms Fordyce: In the community?

Mr Conway: Your colleague indicated that if those kinds of community placements can be provided it could be and probably should be closed. Is it your view that it is reasonable to expect those kinds of specialized placements can and will be found in Lanark and Leeds and west Carleton?

Ms Fordyce: I would hope that is the move of the government and that people are going to receive top-notch care in the community better than can be provided in an institution.

Mr Morin: You raised one problem that you have in recruiting volunteers. I was involved in that very, very directly and I understand—

Ms Fordyce: I think you told me that one.

Mr Morin: I used to be minister responsible for senior citizens' affairs. I would suggest that you give a call to Mrs Mary Brown with seniors' issues. She will give you all the advice that you need to get volunteers. It is difficult to get them, but she will help you out—a terrific person.

The second thing: I wish you success in trying to obtain volunteers with the people who are receiving either welfare or unemployment insurance. That is going to be tough. The idea is excellent, to keep them involved so they become informed of what goes on, because if you want to activate a person in finding a job, it is to keep them employed. I agree with you 100% with that, but I wish you success.

The Chair: I have to go on to Mr Sterling.

Ms Slater: Can I just speak one second to that?

The Chair: You are taking Mr Sterling's time away. Okay, he says it is okay.

Ms Slater: All I wanted to say was we wondered when we hired five students this summer who were all recipients of welfare, or their families were, and out of the five, four of them were wonderful employees and did a super job and one did not work out. You might be right on some occasions, but it is not always the case.

Mr Morin: It might be easier in a rural area.

Ms Slater: Maybe.

Mr Sterling: I would like to follow along with Mr Conway. I am very much concerned about Rideau Regional Centre in terms of the patients or residents who remain. They are severely handicapped and they have severe physical problems as well as other challenges. My concern is that in talking to the parents, they just do not think there is enough money in any government to do a proper job outside Rideau Regional Centre.

The second thing I think people from outside eastern Ontario should understand: Rideau Regional Centre, in my view, is a home for a lot of these people. It is not an institution to them. Their ability to survive in that community is much greater than their ability to survive in Almonte or Carleton Place or any other community because there are more safety nets within that institution. I think deinstitutionalization is a goal that we should try to achieve for everyone, but I do not think it is achievable for those at the low end of the scale—

Ms Slater: We have done it.

Mr Sterling: No, you have not. There are still 850 in Rideau Regional Centre.

Ms Slater: We have some very severely handicapped.

Mr Sterling: And every one of those you put out, to keep the example that you brought in, is going to keep three of those back in, because it is so costly to put the last 850 out into the community, when they have taken “the cream off the top.” I think there were originally over 2,000 or 3,000 residents there and they have deinstitutionalized down to 850, but the remaining ones have got severe problems. I think the government, quite frankly, should not close Rideau Regional Centre at this time at least, unless something changes dramatically.

1530

The other thing that I am concerned about is there is no tracking of a person who leaves Rideau Regional Centre. The government washes its hands of a resident 30 days or 90 days, I am not certain, after they leave Rideau Regional Centre. There have been people who have dropped off the face of this earth who have been deinstitutionalized from Rideau Regional Centre. No one can locate where they are. They somehow got out into the community and got lost. My concern is, I know there are happy stories, as you have said, but are there other stories which are sad, where people have been allowed to go out into the community and just have not found the social net to protect them? That is my greatest concern.

The Chair: I would like to thank you, Mr Sterling. I remember that speech you had in the House not too long ago.

Mr Sterling: I thought it was good.

The Chair: Yes, I listened there. We were listening. I would like to thank you there for your presentation before this committee. See, you did not think anybody was listening, Norm.

OTTAWA-CARLETON FOOD COALITION PROJECT AND EMERGENCY SERVICE PROVIDERS

The Chair: The next group to come forward is the Food Coalition and Emergency Service Providers. I would like to welcome you. You have 15 minutes for your presentation and in that period, if you want, leave some time at the end for questions from the committee. Would you mind identifying yourselves for the purposes of Hansard and your position.

Mr Wallace: My name is Bruce Wallace and this is Robin Pow. We are both food coalition project workers for the food coalition project which was established using the food bank contingency fund of the Ministry of Community

and Social Services; today we are also representing the emergency service providers which is a coalition group, as the name says, emergency service providers, people providing drop-in services, food banks in the region. We are members on that committee representing them also.

Ms Pow: On my way over here, I picked up a bag of groceries from one of the food programs downtown, one of the local programs. What you see on the table is basically what a single person would get in a food package which would last until the end of the month. You can see there are a couple of cans of soup and some beans. The only thing that is missing from this package—there are actually some eggs over here—is a pound of hamburger and about one quarter of a pound of margarine.

From what Bruce and I have been seeing—we have been doing a research project—many people would come into the food bank, about the second or third week of the month, often paying high rents on general welfare assistance. They run out of money often due to the high rents; there is not a lot left over for food. This is what they get, usually, to last until the end of the month. A lot of the programs are flexible and they will allow people to come back more than one time during the month, but they ask people to try and last as long as they can on what you see before you.

I do not know how long you think this would last you; this is supposed to represent three meals a day. Usually, in talking to people, it will last for about three or four days. A lot of time and money goes into food distribution and we are concerned about the effort that is being put into that and not being channelled into giving money directly to people who need it. People have to drop this off for pickup. The food-bank truck comes to pick it up, it gets taken back to the food bank and gets sorted. There are volunteers there and paid staff. It goes back out to the food programs. There is an incredible amount of volunteers in the city who come out. They are in church basements every day sorting food and handing food out to people. There were over 18,000 people in the month of July who used the services of grocery programs. We just want to make people aware of what the situation is and what people are actually receiving.

Mr Wallace: We are here to try to relate to you how the provincial budget affects one segment of Ontario's population, the people who use food banks in the Ottawa-Carleton region. It is a diverse group of people. But last month we interviewed or talked to 131 users to try to get an idea of the different profiles of users. We also tried to find out not only who they are but what they would need from a provincial government.

We strongly support the general direction of the NDP's budget as a budget that would begin to help a significant population within Ontario. During the month of July, there were over 18,000 people who asked for and received groceries such as you are seeing here from the 28 emergency grocery programs in Ottawa-Carleton. That does not include all the people who go to soup kitchens, get meals from drop-ins, breakfast programs in schools and places giving out food vouchers. It is only the grocery hamper programs.

Out of these over 18,000 people, over 8,000 were children. Children make up 44% of the total people using food banks. Agencies which provide these services, as you might expect, have seen great increases since the recession has started and now a lot of them just do not know what to do. They are throwing up their hands. They cannot meet the demand. Quite a few churches are running out of food halfway through the month.

What I wanted to tell you now is what people told us last month when we talked to users of food banks. Most of the people who use them are receiving government benefits; over 80% actually are receiving benefits. Very few are what are considered the working poor. Almost one half of all the people using food programs are general welfare recipients. People receiving family benefits allowance make up a further one quarter of those seeking food. Over 80% of the people we interviewed are renting apartments or rooms from the private market and many were paying over 50% to 60% of their cheques on rent.

We were told by two thirds of the people we interviewed that they run out of food before the end of the month and half of these people ran out of food before the second week of the month. We also ask what would help a person to be able to buy food for themselves and almost 40% of them told us bigger cheques were needed usually to be able to afford the high rents and their bills. Another 20% said a job is what they needed and a job is what they wanted, yet they knew that their chances were pretty dismal during the recession. We had men in their 50s with little work experience or little education, recovering from work-related injuries asking us, "Who would hire an old man like me?" It is really hard to give an answer.

The reality is that of the people we interviewed, over half of them had not completed high school and about one quarter, exactly 23% of the people we talked to, told us they have used psychiatric services. A provincial budget based on a market approach would not be a budget which met the needs of these 18,000 people in the region using emergency food programs. In our survey, every one agreed that the food programs cannot be shut down. They told us they needed them and that without them, a lot of people would go hungry. Many of the people told us that crime would increase if there were shutdowns.

The food banks are not a suitable response to Ontario's poverty. They are only a Band-Aid approach to an economic problem. Closing the food banks will not help; it will only further hurt this population. What is needed is continued social welfare reform, more affordable housing and lower unemployment. We do not believe that the needs of this population can adequately be met by market-based policies. The population needs the NDP government's commitment to building more affordable housing.

As already said, 80% of the people needing food bank food are renting apartments or rooms in the private market. This population needs the provincial government to continue to implement social assistance reforms as outlined in Transitions and Back on Track. We are pleased with the initial steps that have been taken, but believe a greater commitment is required to bring about real change and positive results for those affected although the \$250 million is

encouraging, it still falls short of the \$450 million promised to revamp and improve the system.

In closing, we would like to respond to a report issued earlier this week by the Fraser Institute which criticizes the NDP government's budget and its food bank policies. This report recommended that the Ontario government, rather than trying to eliminate food banks, should encourage such private charity. The institute explains that food banks are not a problem but evidence of good citizenship. We strongly disagree. Food banks are not just a problem, they are a disgrace. There should not be acceptance of food banks but rather outrage that in this so-called fat city there are over 28 programs in the area made up of hundreds of volunteers handing out food to thousands of poor men, women and children.

Charity such as this on this large scale throughout the province is functioning to preserve the status quo, to maintain hunger in an affluent society, an affluent province. No institution other than government is able to ensure basic needs such as food, clothing and shelter.

1540

Mr Villeneuve: Regarding the food bank phenomenon. I was always surprised when we were going through the good economic times—and you are probably aware of the planning and counselling—about the other side of fat city, and you have referred to fat city. This, I believe, will be an ongoing phenomenon, particularly going through a recession or coming through a recession.

When we go back to the buoyant economic times of the late 1980s—I live just outside of Ottawa, and Ottawa radio stations are heard there and Ottawa newspapers come to our door on a daily basis—I was always wondering why in this city we had this type of phenomenon. I am starting to understand it a little bit, but could you expand a little more? Can we not get these people, particularly when times are good, to be self-sufficient at least? To be for ever and always asking for additional food and food banks, I understand it going through the recession, but I have great difficulty going through the period from 1986 to 1989 when times were supposedly good. We are going through the recession now, but quite obviously the fact that they are needed more and more indicates a malaise somewhere that we have not been able to put our finger on. How do we correct this?

Mr Wallace: As mentioned in the presentation, I think the easiest way to correct it is through what we see as the great social reforms like the Back on Track reforms. More affordable housing is probably the largest one, where as the money increases, if the rents increase, it is not going to end. Most of the people told us it is the rents which are really putting them behind, which they can never get ahead of.

On the hiring, most of the people whom we talked to would like a job. As I also said, it is really hard to sound encouraging that a lot of people would get jobs. As we said, 23% of the people told us they had used psychiatric services. Many people are older and they have had industrial injuries. They are not people whom many of the people in this room would pick out of a labour force as people they would want to hire, especially during the recession.

There are just so many layoffs. I do not know that just closing the food banks or trying to see the solution as being a food solution is possible. It has to be a solution that is based on welfare reform, housing and more jobs.

Mr B. Ward: Thank you for your thoughts. I have read that article by the Fraser Institute as well. I could not believe the inferences it was making, and that the Fraser Institute would make such an irresponsible statement concerning food banks. Perhaps you could explain, from your point of view, why they would even suggest such a thing, if you can.

You are basically on the front lines working with the people of Ottawa who are severely disadvantaged because of the recession. We have attempted to maintain our social programs during these tough times, if not to improve them, and I have been criticized for that by some groups. What do you think it would be like here in Ottawa if we had not implemented what we did in the budget pertaining to social programs?

Ms Pow: We were pleased to see the reforms that were put into place and we think they are going to make a difference for people.

Mr B. Ward: If we had not done it, what would—

Ms Pow: If you had not done it, I think the situation would be even worse for people. There is no doubt about it.

Mr B. Ward: Why do you think the Fraser Institute would make such an irresponsible statement concerning food banks?

Mr Wallace: From what we read of the Fraser Institute, it thought that the food banks were a great example of citizenship in Canada, because of the charity of the churches and how the churches do in outreach. I cannot—

Mr B. Ward: And why do—

The Chair: Mr Ward, let him answer, because you have only got about 15 seconds left.

Mr B. Ward: Okay.

Mr Wallace: Anyone who thinks of the food banks as an example of really good citizenship in Canada has never been in a food bank, I do not think, and seen how degrading it is for the people who go through it to have to prove that they need the food. To prove that you are from that area to get this food, to go and stand in line for this amount of food and to take it home is very degrading. The citizenship is when Ontarians do not have to go and stand in a line and almost beg for their food from these agencies. There is no way that they investigated what a food bank really is, to call it good citizenship at all.

The Chair: I would like to thank you. We have run out of time.

ONTARIO PUBLIC SERVICE
EMPLOYEES UNION

The Chair: The next group is the Ontario Public Service Employees Union. Good afternoon. I would like to welcome you. You have 15 minutes on your presentation before the committee. In that period of time, if you can leave some time at the end of your presentation within that 15 minutes so the members of the committee can ask questions on your

brief. If you would not mind, for the purposes of Hansard, to identify yourself and your position, you may begin.

Mr Upshaw: Let me first of all say that I appreciate the opportunity of being here today. I want to introduce Beverly Dalys from our educational and research department of OPSEU, who will be sitting alongside me here and answering any technical questions that there may be. Let me also say that I understand the National Union of Provincial Government Employees, who are following us, have given part of their time to OPSEU for this presentation, so we actually have more than the 15 minutes allotted.

My name is Fred Upshaw and I am president—I am sorry. Is this off my time or what?

Mr Sterling: What is happening here? I thought this committee determined what times people were given and there were no deals made out in the hall as to who was going to be heard and what the times were. Are these people all one group?

The Chair: Okay, Mr Sterling, let the clerk explain this. I am just going by the schedule, 3:45 to 4 o'clock. That is the scheduled time here.

Clerk of the Committee: My understanding is that OPSEU was offered an appointment yesterday and would have had a 30-minute appointment, but they were unable to make it yesterday. In coming today, the only appointment left was a 15-minute appointment, which they accepted, which is why they have 15 minutes on the agenda.

Mr Upshaw: If I may ask then, if one of the panel objects to OPSEU, which represents actually about 110,000 workers in Ontario, having the opportunity of sharing some of the time with our national union, which we are a component of, if I understand—

The Chair: You are talking the National Union of Provincial Government Employees?

Mr Upshaw: Yes, which we are a component of.

The Chair: So you are going to take 45 minutes and split it in half then?

Mr Upshaw: But my understanding is that a panel member objects. If that is the case, we will accept that, and we will try to give our presentation in 15 minutes to the employees of the Ontario provincial government.

Mr Sterling: I object.

Mr Upshaw: Obviously, you do.

Mr Sterling: I do not think you should be—

Mr Upshaw: Obviously, so I accept.

Mr Sterling: It is all one group, and you are all going to say the same thing anyway.

Mr Upshaw: I accept your objection, Mr Sterling.

Mr Sterling: It is a joke.

Mr Upshaw: We understand.

The Chair: Would you continue?

Mr Upshaw: I am pleased to address the committee on an issue that affects the lives of the 69,000 provincial government workers whom I represent and thousands more OPSEU members in colleges and agencies that depend

on provincial funding. So we are talking of 110,000-plus members in Ontario, the largest in the country.

It is not often that the Ontario Public Service Employees Union finds itself in the position of agreeing with its major employer, but I will congratulate the government for bucking the national trend to bludgeon public sector workers.

1550

As far as budgets go, the latest fashion rage seems to be for government treasurers to wear oxfords that are two sizes too small and very tight. After Ontario's 1991 budget was delivered by Treasurer Laughren, the opposition and the media acted as if the new Treasurer had delivered a budget in oversized fluorescent sandals, loose, casual and entirely self-indulgent. In our opinion, Mr Laughren's budget would appropriately have been delivered in flip-flops. Although deceptively large, they fit tight and serve their purpose as a flotation device. In this case, the Ontario budget is keeping afloat the economy, not just of Ontario, but of Canada as well.

Critics have charged that the projected \$9.7-billion deficit is higher than we have ever seen before. That may be true, but this budget is responding to other numbers we have never seen before: half a million unemployed; 83 full and partial plant closures in the past six months; 10,000 business and personal bankruptcies in Ontario in 1990; a 90% increase in welfare cases in Toronto. With one exception, the current government's response has not been a radical departure from the response of Treasurer Frank Miller to the recession of 1981-82, and that one was not as severe.

We in OPSEU recognize that there are other aspects of this budget that have not been seen before in this province. Federal transfers contribute less than 12% of provincial revenue. Federal cutbacks this year may cost Ontario over \$1.6 billion. In 1982, the Conservative administration was looking at a decline in federal transfer to 15.8% from 17.3%. Today, it is only 12%.

In 1982, the Tory government spoke out against these harmful federal cutbacks, specifically cuts to established program financing. The cost to Ontario then was well under \$500 million. Today, it is three times that amount, and today Ontario has to account for the ravaging effects of federal Bill C-69, which focuses Ontario to pick up the largest part of Ottawa's tab on social assistance. Bill C-69 has a very damaging action by the federal government. Ontario depends on transfer payments to maintain the social programs that are delivered by our members.

The Supreme Court decision of August 15, which upheld Bill C-69, has bolstered the principle of downloading responsibility to lower levels of government. Clearly, the NDP government does not abide by this principle. To its credit, the government has not downloaded the extra costs to the municipalities. If it had, the provincial deficit would have been lower, but I expect the opposition would still have been whining. If Ontario had passed the increasing cost of welfare on to the municipalities, they would have been forced to raise property taxes and hurt many of those who can least afford to pay. I submit that the government did the right thing in stopping the buck where it belongs.

Our overvalued dollar, high interest rates, the GST and the free trade agreement with the United States have

combined to lay waste to Canada's economy, especially Ontario's. During the 1981-82 recession, Ontario's unemployment rate remained below the national average and there was less overall movement to Ontario, but today Ontario's unemployment rate continues to increase, even though the recession is supposed to be about over.

These pressures on the Ontario economy have provided this government with little choice but to increase spending. Maintaining current standards of health, education and social assistance added over \$3 billion to the \$3-billion deficit that this government inherited from the Liberals.

Then there are the extra costs of making pay equal. Will you chop the \$125 million that this government is making available for pay equity adjustments to low-paid women in municipalities and day centres? I think this proves that the government understands that women should not bear the brunt of economic downturn.

This government may also understand that redistributing money to those who need it increases spending and boosts the economy. In a recession you cannot argue with that, and in the 1982 budget Frank Miller created temporary jobs like UIC top-up programs, but this new budget is responding to the needs of the province for lasting jobs and encouraging an effective mixed economy. Better roads and hospitals provide ongoing benefits to citizens and businesses in Ontario. The NDP government is taking no hostages, be they women, workers on UI, municipalities or public service workers.

The Conservative administration of 10 years ago chose to make public sector employees pay for the shape of the economy. The 1982 budget statement imposed wage controls, claiming that public sector workers have a considerable degree of job security. That was in spite of the increase in unclassified, casual staff and the tendency towards privatization that was happening then and continues to this day. We know that public sector job security is a myth. Mulroney is proving it at the federal level. Ward closures in provincial psychiatric hospitals and the restructuring of such areas as OHIP and the business practice division of the Ministry of Consumer and Commercial Relations are examples, while my own members are not—and I emphasize “not”—secure.

That said, it is a relief to see a government show economic leadership by continuing to respect our free collective bargaining relationship through hard times. Government workers are not the root cause of budget deficits. In fact, our share of the budget dollar has been steadily decreasing. To apply tough policies to fight the deficit during the worst economic downturn in 50 years would not only have been insensitive, it would have been unwise. Ontario's actions are necessary for the health of the national economy.

We at OPSEU are pleased that the basic difference between this budget and those of the past comes down to how the real problems of working people and disadvantaged people are treated. It is refreshing to see a government that does not treat pay equity, native issues and wage protection as luxuries. It is a real pleasure to see that this government recognizes the contribution that its employees make to the public. OPSEU members provide quality service to the people of Ontario. At times like these, when so

many people must rely on assistance, our members make an outstanding contribution.

I thank you.

Mr Sterling: I understand the average increase for employees is around 7%?

Ms Dalys: It is 5.8%.

Mr Sterling: Do you think that—

Mr Villeneuve: It is 6.8%.

Mr Sterling: Well, whatever it is, there is not time to argue over that. Do you take that as a top priority, over a group like that which was just in front of our committee before, the food banks? Do you think that a government's priority should be in properly funding food banks or giving increases of 5.8% to the civil service? I understand some civil servants got over 10%.

1600

Mr Upshaw: Let me say first of all that we do not look for wage increases that are going to take away from food banks. We do not look for wage increases that are going to take away from those who are unemployed, from those who are on the welfare rolls. We ask only for a proper increase. However, thank God we have a government now that is willing to sit down and negotiate, and we in turn will negotiate with this government. If it means that our people, the professionals who deal with the underprivileged, have to toe the line in order to bring this deficit which this government did not create in line, then that is what we will do.

Mr B. Ward: Just quickly, we have heard from a number of groups which are requesting that a balanced budget be implemented this year, which I think is unrealistic. When asked where they would cut, one of the first things they say is to freeze the civil servants' wages. What do you say to those groups which are suggesting that?

Mr Upshaw: What I say is, if you cut the wages of the civil service—in other words, we cut the wages of the ambulance workers—is that going to make the service any better? If we cut the wages of the people who work in the psychiatric hospitals, is that going to make the service to those patients any better? If we cut the wages of the people who work in the community colleges, is that going to make their job any better? I suggest to you that it is not the civil service that has caused this deficit. All they are prepared to do is their professional job, and that is to serve the people of Ontario.

The Chair: I would like to thank you for your presentation before this committee.

Mr Upshaw: Thank you very much.

NATIONAL UNION OF PROVINCIAL GOVERNMENT EMPLOYEES

The Chair: The next group is the National Union of Provincial Government Employees. I would like to welcome you. You will have one half-hour for your presentation, and in the period of one half-hour could you leave some time at the end for questions and answers by the three parties here on the committee. If you do not mind, before

you get started identify yourselves and your position for the purposes of Hansard. You can start your presentation.

Mr Clancy: Thank you very much, Mr Chairman and members of the committee. My name is James Clancy. I am the president of the National Union of Provincial Government Employees. To my immediate right is NUPGE's economic staff member; he is an economist, Bob Dale. He works for the national union. To my left is Derek Fudge, who is the director of research for the National Union of Provincial Government Employees. We have distributed a presentation to the committee. I will not read it, but rather I will make some short remarks, probably some seven or 10 minutes in length.

I gather that the committee did not, and I had agreed—

The Chair: Oh, you agreed that—

Mr Clancy: Sure.

The Chair: Okay. I did not hear anything come forward, so that is why I did not want at that point—

Mr Clancy: So OPSEU did not get any—

The Chair: They can come back on, but there is only that period of time. That is it.

Mr B. Ward: How much time do they have?

The Chair: There is a total of half an hour.

Mr B. Ward: So 4 to 4:30?

The Chair: Yes, that is correct.

Mr B. Ward: Is that approximately enough?

The Chair: Maybe Mr Upshaw can come and sit up there and the questions can be—

Mr Clancy: Sure. Brother Upshaw, will you join us?

Mr Sterling: Mr Chairman, I have to tell you something here. I want to make this perfectly clear. The unions may run the NDP government of Ontario, but they do not run legislative committees.

The Chair: Mr Sterling, we are not going over the time period.

Mr Sterling: It does not matter. We were scheduled for a half-hour here this afternoon with the National Union of Provincial Government Employees and that is who I expect to hear and question during this period of time.

The Chair: What we did earlier in the day between 1 o'clock and 2 o'clock is that we took three community groups and grouped them into one hour because they wanted to group that time. They did not get any longer period of time; they still only had the one hour for their presentation.

Mr Sterling: It is not a question of who is here when they are here. It is a question of who is controlling the committee. It is not the witnesses who control the committee, or a group that has a special interest in presenting a case that controls the committee. It is this committee that controls what happens in this committee.

The Chair: As Chairman, I am listening to your direction.

Mr Sterling: I object strenuously to people making deals outside of this room without the committee's knowledge and coming in front of this committee and saying,

"We'll split up the time this way," or whatever it is. That is not the way things are done. As I say, the unions may have control of your agenda, but they sure do not have control of this Legislative Assembly yet.

The Chair: Mr Sterling, all I was taking a look at here is, that period of time was not extended or anything else unless the subcommittee wants to give the Chairman any different direction. As it is, I just looked at the clock and saw that they are here till 4:30. We are listening to the people of Ontario. Is there any objection?

Mr Christopherson: We are on track right now. Everything is fine, as it should be. Mr Clancy is entitled to whomever he wants in his delegation, and I suggest we proceed.

Mr Clancy: I thought it was just a small administrative error on somebody's part. They were supposed to get our time and we were supposed—we are not hung up on it. Brother Upshaw is a member of our board. He is our Ontario vice-president.

The Chair: Let's not waste any more time and let's get on with the brief.

Mr Clancy: Let me begin by saying there was a comment made about the unions running the NDP. Let me categorically state that we do not. They are quite capable of running the government and doing, in my estimation, a fine job of it. So I have no interest in running the government. If I wanted to run the government, I would run for government.

The Chair: I hope I was fair as a Chairman to say you had your 15 minutes, Mr Upshaw. Now you are sitting with the other group.

Mr Clancy: The National Union of Provincial Government Employees, Canada's second-largest labour union, wants to thank the members of the standing committee on finance and economic affairs for giving it this opportunity to appear before them.

The national union was founded in 1976. It now has 13 components across the country. We represent people employed in both the public and private sectors in many different types of occupations and jobs across the country. In total, we represent some 302,000 workers, 109,000 of whom are members of our four Ontario components: the Ontario Public Service Employees Union, OPSEU; the Ontario Liquor Board Employees Union, OLBEU; the Brewery, Malt and Soft Drink Workers, Local 304; and the Canadian Union of Brewery and General Workers, Local 325.

What I intend to do is provide you with an oral summary of our brief and perhaps there will be time for a few questions.

Let me start by talking about a theme dominating most provincial budgets and the federal budget this year, that of tough choices. This is the idea that governments faced with difficult economic circumstances have no choice, even in a time of recession and severe economic hardship, but to brutally clamp down on crucially needed public programs and services and on the wages and jobs of the public sector workers who provide them.

As you evaluate the Ontario budget and consider its merits and its shortfalls, the national union would like the

members of the standing committee on finance and economic affairs to contrast Ontario's people-oriented approach with the tough-choice, cut-and-slash, expenditure-reduction philosophy that most other governments have implemented.

In our view, you should be considering two related questions. The first is whether governments implementing policies based on that philosophy really understand what their mandate is. We do not think they do. Indeed, the overriding policy focus of most Canadian governments over the past several years has been on controlling or reducing their annual deficits and their accumulated debt.

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More people-oriented objectives, such as creating jobs, reducing unemployment and providing assistance to those in need, have been pushed aside to please both corporate executives and analysts who manipulate financial ratios in bond-rating firms. As a result, most of our governments have been far too willing to accept shockingly high unemployment rates, rates which never seem to drop far enough even in times of economic growth, and record numbers of people living in poverty, dependent upon welfare and food banks.

As we show in our brief, as high as some of these rates seem to be through quoting official statistics, they are actually much higher when more realistic factors are taken into account. Consider the national unemployment rate which is now officially at 10.5%. That figure ignores over 800,000 other unemployed Canadians: for example, those who have stopped looking for work, feeling there is no work available for them, or those who only work part-time even though they really want full-time jobs, and workers in similar types of circumstances. If we add those individuals to the official statistics, we see that the true national unemployment rate is around 16%. In Ontario, the 10% official unemployment rate becomes a 15% true rate.

That is wrong. Should we not all be ashamed that a society as rich as ours would tolerate so high an unemployment rate? Why do we let our governments get away with the cut-and-slash, expenditure-reduction policies that have caused so many of these people to lose their jobs, and then to be thrown on the scrap heap and often ignored?

Governments should be there to make things better for people, to provide people with needed public programs and services and to help people when they are in need, not to pull out when people's needs are greatest. Ontario's government decided not to pull out when its citizens needed it. It acted in marked contrast to the federal government and most provincial governments across this country.

The second question we would like you to consider is whether actions consistent with the tough-choice, cut-and-slash, expenditure-reduction philosophy actually address the problems governments supposedly want to address. We think the expenditure-reduction philosophy actually runs diametrically against what is needed for economic growth and recovery to take place. What expenditure reduction does is cost people their jobs and reduce the public programs and services they rely on, like health care, education and social assistance, at a time when people are already hurting.

Expenditure reduction also means less help for workers laid off by industry shutting down because of the so-called free trade agreement and high interest rates. Expenditure

reduction means fewer opportunities for our young people to get an education, for working families to find quality child care they can afford, and less affordable housing being built. Implementing expenditure-reduction initiatives in a time of recession is not only perverse; it is immoral.

The Ontario government should be praised for having the guts to confront head-on the heartless and uncaring economic policies implemented by the federal government in Ottawa, policies to which most other provincial governments have acquiesced, despite what they would like their respective electorates to believe.

Provincial governments across the country, those that allege they were constrained in responding to what the federal government has done to their provincial economies through its policies on interest rates, transfer payments, taxation, free trade, unemployment insurance and deregulation, did have other fair, more people-oriented choices. They could have made these other choices despite these and other federal government actions. Indeed, the so-called tough choices those other provinces decided to make had less to do with their own province's economic problems than with their own political philosophies or, more appropriately, with the federal cut-and-slash, expenditure-reduction philosophy they have so willingly embraced. Is it not time our federal government and most of our provincial governments started to focus on people and treat those people more fairly, like the Ontario government has done?

Earlier this year, our union and the Public Service Alliance of Canada held public hearings across the country to obtain the views of ordinary citizens about Canada's future. We wanted to find out how people were feeling about a broad range of issues. Many of the people we met talked about the effect of federal and provincial expenditure-reduction initiatives.

For example, in Regina we heard the following: "The human costs are all around us: Growing rates of poverty; legions of the homeless; hundreds of thousands relying on food banks; plant closures as manufacturers move south; chronically high rates of unemployment; more taxes for workers and less for corporations; and a decade of economic insecurity, which has led to a serious recession. After all this punishment from their own governments, it is little wonder that Canadians are in a foul mood about just everything these days."

A youth worker in Vancouver said this: "Canada is a tough place to be these days if you are young, poor, down and out." But it is not only the young who are worried; we heard the following from a community activist in Edmonton: "I think to be a Canadian is to be worried about having a job. I look around and I see signs of social crises everywhere: Poverty, homelessness, educational decline, and violence towards women, children and aboriginal people." What a way to define the term "Canadian."

Most discouraging, perhaps, was what we heard from an employment counsellor in Whitehorse who said she felt that the federal government was telling Canadians, "If you are not healthy or wealthy, then you do not have a right to quality of life in this country." This is where the federally inspired tough-choices, cut-and-slash, expenditure-reduction

philosophy—a philosophy adopted by all provinces save Ontario and Prince Edward Island—has led us.

It positively astounds us that some people can support initiatives implemented in the name of that philosophy, and it astounds us that people can be so critical of initiatives directed at turning those things around for those who are the most needy in our communities.

The Ontario government has chosen not to follow the lead of its federal and provincial counterparts. In this time of need it has decided that people come first. The national union strongly supports this policy thrust. At the same time, however, we suspect and hope that the Ontario government has not gone as far as it would have otherwise wanted to. Indeed, much more money and even better public programs and services are needed to address the needs of Ontario's 530,000 officially unemployed, its one million dependent upon welfare, and its other needy citizens.

So we say to the Ontario government, do not be swayed from your policy course to try to placate the corporate community. Do not think you are going to make people like the editor of the *Financial Post*, who thinks welfare recipients are too well off, happy. You will not. What you need to do is to stay on track. Moreover, when the economy turns around, we think there are ways of raising the money you will need to address the problems you have not yet been able to address.

For example, our Manitoba component recently estimated that fairer corporate and personal taxes in that province would have raised close to \$70 million this year in their particular budget. Our Newfoundland component questioned the need for \$165 million in corporate subsidies while the government cut 2,600 public sector jobs and closed hospital beds.

Along similar lines, our Nova Scotia component estimated that if corporate taxes had increased by the same proportion as personal taxes over the last 10 years, the province would have had \$74 million more in revenues this year. And our New Brunswick component has observed that fairer personal and corporate taxes would have raised close to \$30 million in provincial revenues.

In other words, even in provinces having far smaller revenue bases than Ontario, there are ways in which relatively significant amounts of money could have been raised to meet provincial needs. The only thing necessary is the government having the will to confront its detractors head-on.

We believe Ontario has such a government. We believe that government is moving in the right direction, and we believe that after examining the evidence in detail this standing committee will have no choice but to agree with us.

Thank you very much for your time.

Mr Christopherson: Thank you, Mr Clancy, for your excellent presentation. I note you talk about the philosophy the Finance minister of Nova Scotia followed, and I think we saw an indication just a couple of days ago of how people in that province feel about that approach, and I will say no more about it.

I would like to ask you about the reference you make to Newfoundland where your report talks about the closing of hundreds of hospital beds, cutting school board and community college funding, teaching positions and social

assistance payments. Could you give me just a little more detail in terms of what that has meant in those communities? Literally, have they closed hundreds of beds, and what happened to the school board and community college funding and the social assistance payments? What have those things done to the people in that province and to those communities?

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Mr Clancy: Let me ask my colleague Derek, who has the good fortune to have come from Newfoundland and had the good fortune to spend a week down there this summer, to comment and give us the latest.

Mr Fudge: It was really unfortunate and it was very sad to go back to my home province this summer and see what has been happening. To give you a most graphic example, I have friends who live in a town called Burgeo. They now have to go nearly 150 miles to get hospital care. There is no hospital. I have a niece who is a social worker under the Department of Social Services. She has a case load of 550 people and she cannot cope with her cases, the physical abuse against children. It has also created and added to the official unemployment rate in Newfoundland. It has added over 1% to that rate since the budget came down in April. So policies like that have very much hurt the ordinary people of Newfoundland.

The Vice-Chair: I would like to thank you very much for your presentation here today.

The committee recessed at 1622.

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SOCIAL SERVICES COMMITTEE, REGIONAL MUNICIPALITY OF OTTAWA-CARLETON

The Chair: The next presenter is Nancy Smith, the chair of the Social Services Committee for the regional municipality of Ottawa-Carleton. I would like to welcome you here to this committee. You have one half-hour for your presentation, and in that one half-hour, can you leave some time at the end of your presentation for questions and answers with the three parties here. You may begin.

Mrs Smith: I hope you appreciated our five-minute break and did not spend it being frustrated as I was, being stuck a little bit in the traffic on the way over from city hall.

I would like to set the stage for what I want to say to you first of all by saying that as chair of the Social Services Committee at Ottawa-Carleton, we were very pleased with the changes in the funding formula for social assistance. If I just give you the magnitude of the money involved, perhaps you will understand why I make that comment.

Around March or April, we had to go back to council for additional money. We had to go back to council for \$500,000 because of case load growth and some changes in the social assistance system. Without the change in the formula for funding that was introduced with the budget, we would have been going back for \$5 million to \$10 million of local taxpayers' money. It certainly was said at council at the time, but I do not think it has been said often enough. As chair of that committee, I do not relish going back ever for extra money. We represent a very vulnerable population and we try to do the budget once and stick with

it during the year. To go back for \$5 million to \$10 million mid-year, I am sure you can appreciate, would not be something I would look forward to.

However, what I really would like to say to you quite simply is that the social assistance system in this province is broken in a fundamental way. I think it is beyond money. I think it is beyond the understanding certainly of most elected representatives. I would like to convey to you the need to fix that system so that the taxpayers' money, yours and mine, will go to service and management of the system and not to confusion and red tape.

I would also like to convey to you a bit of the sense of siege that certainly we on the committee and council feel and I think many people working in the field do. It is always a bit of a challenge to speak to a committee at the end of the day, having been in that seat. I will do the best I can, but I thought before I numb you with some statistics, I might share with you a quote from a municipal councillor. It goes back a couple of years to the AMO annual general meeting. She since married and moved to British Columbia and lived happily ever after. What she said at that meeting was, "Never tie up with your tongue what you can't undo with your teeth." We were speaking of social services funding at the time, and I still think it is very appropriate.

Ottawa-Carleton is a prosperous community and I am sure that some of you have probably told us that a number of times. Certainly you have heard it told. Our case-load growth over the past four years has followed this pattern year to year: 6%, 6.6%, 26%, 46%. We have close to 50% more people on general welfare this year than we did last year. In actual figures, we have gone from 12,000 clients to 25,000 clients in four years in this community. Looking at it in terms of money, gross figures, we have gone from just under \$100 million to nearly \$250 million, or in our local costs, from 25% to 53%. That is an enormous amount of change in a very short period of time.

The final figure one might look at is the percentage of the population on assistance. As some of you may know, that is the basis for a change in cost-sharing. A few years ago, the municipalities always used to say to the province, "Four per cent is no good." No municipality ever gets over 4% unless it is absolutely dead and destitute and all industry has closed down. We were at 3% here, 3% of the population on assistance; 3%, 3.5%, 4.3% and we are projecting 6.2% of the population of Ottawa-Carleton on assistance by the end of this year. When you add in people on unemployment insurance and other benefit programs, you are probably looking at 60,000 people, 10% of the population of Ottawa-Carleton, on benefits of one kind or another.

Our committee sits every other Thursday. We hear from a lot of clients, a lot of constituents, a lot of advocates and we deal with a lot of problems that do not have any solution, too many sometimes.

We have a very limited amount of money in relation to what has to go on and it can be a very disheartening situation, and I know a number of you have been involved in that area. What I think is the most disheartening is not the clients, not the need, not our inability to respond, but the complexity of the social services system.

I always say to members of the committee: "Please don't be embarrassed to ask. Nobody understands the system, and it is not possible to keep it in your head." I will not test you because I do not know how many of you have been involved in social services in any detail, but I have been on the committee for 11 years. I sat for six years on the funding arrangements committee which started under Bill Davis—that gives you some idea of going back a little distance in time—and then on the Provincial-Municipal Social Services Review Committee.

I think the system defies understanding and I think that confusion is at the heart of a really fundamental problem of accountability. That is one of those words that make people's eyes kind of glaze over and they fade off into the distance and wait for it to be over.

It is what I call the "Who should we yell at?" principle. The social services system: I defy you to figure out who you should yell at to get something fixed. That is all it is about. Nobody can figure it out. We sit there at the social services committee every other week and people come. They do not yell at us, we are on pretty good terms with our constituents, but they are upset and we are upset because nobody can figure out who to yell at to get the damned thing to work. It is like a car with square wheels and the steering wheel in the back seat. It does not go anywhere when you push what you think is the right button.

I think that lies partly behind some of the welfare-bashing. I think elected people do not understand it and they therefore feel it is totally out of control. I think the community does not understand it and so they are totally ineffectual politically. I think our staff spends enormous time finagling and negotiating, and your staff does as well.

I think energy should go into the management and delivery of services, especially now when things are so tight. I think the system has to make enough sense so that people can basically keep it in their heads when they are thinking about it.

This brings me to the current disentanglement initiative of the current government, and I will be very blunt with you about it. I am extremely concerned about the delay I think that will cause in solutions to these fundamental problems that I have described. I do not think we fool anyone when we set up another task force, no matter how many ministers and mayors you may find to sit on it.

I particularly think we do not fool anyone when we pretend we have to solve all of the provincial-municipal problems before we can act on any of them, and especially on this one. I just wanted to take a couple of minutes to tell you where I think the solutions lie and how I think you can move on them now instead of waiting for another three-year task force.

I call it the "tying of the can to their tails" approach. I think elements of the solution are at hand and I have to say I think that disentanglement report—and it is known around here as the Hopcroft-Ballinger report; I do not know how many have had a look at it—is very superficial. I think it is a bait and switch, and I think it is an effort to hijack the attempts at solutions because the solutions currently on the table would see a continuing role for municipi-

palities in social services. I think the report is a very thinly disguised attempt to hijack the work that has gone on to date.

I think all of you, whatever your party and whatever your particular concerns and interests, should look at it and say, "Is this aimed at fundamental reform or is it just an effort to say to the province, 'Here, take social services, it's yours'?" I think you will find it is the latter.

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I think from a provincial point of view, what you are going to be faced with is a complete revolt on social services. We, being creatures of the province—okay?—are going to be a little ineffectual in how that is done because really when push comes to shove you can put us to the wall and take the money, but in the meantime let me explain to you some of the things that will happen. Certainly I will not be voting for them and a lot of the people I work with will not be either, but I can tell you it is going to start. It has started in day care now.

What will happen is that municipalities will start to dismantle the community-based services, the things that continue to be optional—"discretionary" they call it under the act. Day care: We are the only municipality in Ontario to put new money in for day care this year, the only municipality. The spaces in Toronto were just catch-up spaces for the 100% spaces that they had to put forward in the last couple of years, and they blackmailed the province into picking them up this year.

Those community-based services are supposed to be the wave of the future and you have all said, from all three parties, "We want community-based services, community-based control." They are supposed to be the way that we make some headway, we make a little bit of a dent in the cycle of poverty, day care, employment support services, counselling, refuge for battered women. All these things are still discretionary, and if the costs continue to rise on the municipal taxes the way they have, many municipalities are just going to have to stop and there will be no cost-sharing on those services. Those services will simply stop existing.

Community resource centres in this community are at the leading edge of integrated health and community services. They are optional. We fund a whole lot of them. They are not even foreseen under the current legislation.

Having said that disentanglement is really pretty much of a sham, let me just suggest a couple of things I think you should be looking at or recommending that the government of the day have a look at. The Provincial-Municipal Social Services Review, which was delivered to the Liberal government last March or so, made some very simple proposals. We are not here to talk about that in any detail, but let me just give you very simply what it is about.

Basically you would have regions managing community-based social services—and I have just named some of them—and continuing to fund a modest share of those community-based services. It would put the income distribution program, social assistance and welfare cheques on to the income tax, managed and funded by the province. That is it; it is that simple.

It comes out with a minor temporary benefit to the municipalities financially. I think it also comes out with a system that can be managed. I think it provides real management

authority to the regions, and I always say that right now we deal with the tyranny of the tiny toilets. The province counts toilets and we carry the liability for abuse in day care centres. We do not have licensing authority, but it is our problem legally if something terrible happens in one of our day care centres. That does not make any sense.

We manage a budget of \$250 million to \$300 million. We do not need a provincial inspector to count the toilets. I think we could all agree on that. We need proper delegation of management authority to the regional municipalities, and I think with that management authority comes the responsibility to sort out the local problems.

I think that municipal governments and particularly the regions have a unique and continuing role to play in community-based social services, but I think we all have to accept that local property-tax dollars should not be spent on income distribution, not on the welfare cheque. With the dollar figures and the increases that I have described to you, I hope you can understand the pressures that are moving us very quickly to solutions that I do not think any of us want to see.

Unless you, as provincial politicians, want to be faced with the situation where the municipalities simply say, "I'm sorry, it's yours. We're closing down, you pick it up," I think you have to recognize the need to make those fundamental changes.

To go back to the beginning, obviously we are pleased with the money that came through in the budget. I do not know what we would have done without it in this community. But social services reform in the last three or four years has come to mean nothing but money. We have to do some of that dull, boring, mundane management improvement and reform, or the system is not going to continue to support the weight of the demands on it and it certainly will not continue to justify the investments of money we are putting into it.

So I would ask you to rescue social services from disentanglement, or at least put it at the top of the list for that committee. They have to deal with it before they deal with everything else or you will have municipalities dealing with asphalt and human services will be yours, like it or not. I think that is a shame, because I think we have a system that has a lot to offer and personally I am committed to a local share in the funding. But you have to move some time soon. Somebody has to see the urgency in this, because it is two and three and four years past when it was already a crisis, certainly for us. With a 46% increase in welfare in this community, I think you can appreciate that we are one of the better-off communities in Ontario.

Mr Morin: Did I hear you well when you said—and I am sure you did not say that—that all the work that has been done in the past, Transitions, long-term care reform, was useless?

Mrs Smith: No, I certainly did not say that, Mr Morin. I said I think the disentanglement report is an attempt to put all of that, and in particular the PMSSR report, on the shelf for good. There are people involved in that who do not see municipalities as having a role in

either funding or management of human services. That is what I am concerned about.

Mr Morin: So you are saying there was some good work done.

Mrs Smith: I think my committee did good work.

Mr Morin: Was there some good work done by the previous government? That is what I want to hear, because all we have heard today and yesterday was doom and gloom: that nobody else understood social welfare better than this present government. This really tickles me no end. Let's be fair; let's be honest.

I have not met one politician, whatever party he belongs to, who was not sincere and wanted to find a solution for the needy, for welfare cases, for the homeless, people without food. I have not met one, one single one. So have we wasted our time? That is what I would like to know from you.

Mrs Smith: Quite bluntly, the jury is still out. I started when Mr Davis was in power, carried on under the Peterson government and we are now into the Rae government and I am still waiting for the system to get fixed. I would like to think the work that was started under the Davis government and picked up in a different way by the Peterson government would result in a conclusion and I would like to think the work that all of the, as you say, sincere people involved have put into it would come to a positive conclusion. I think the problem is, management is boring; it is not politically sexy. You do not run around on the hustings and say, "Let's have management reform; what fun." It does not sell very well. But that is what we need, because all of that other stuff is going to be down the drain unless we get some of this other stuff fixed—dull, boring and unsexy as it may be.

Mr Morin: You may be the saviour.

Mrs Smith: Just fix it. I do not require the need to carry the cross.

Mr Morin: Come and tell us how to do it, because I think all of us would be very happy to solve that problem.

Mrs Smith: I think the elements of it are in the PMSSR report, Mr Morin. I do not think that is the final solution, but there are some very simple and elegant ideas in there and I certainly hope the current government will, as I said, rescue those from disentanglement and try to make them work. We can run a tab on the bill between municipalities and province while that is done. That is fine. We can keep books on it. But it has got to be dealt with.

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Mr Sterling: Thank you very much for appearing in front of the committee. I appreciate gaining some knowledge and not hearing a litany of excuses as to why the economy is so bad. Your suggestion is that the disentanglement of social services—in other words, the province taking over the whole function of providing social services—would not be as efficient or done as well as if the community, the region, the municipalities kept a hand in it. Is that what you are saying?

Mrs Smith: I think there are areas where it is appropriate to have a local municipal role. If I can just make the

distinction, there is no reason for somebody eligible for a welfare cheque to be treated differently here than in Peterborough, than in Toronto, except for maybe a cost component. There is involvement for local government in that; we have nothing to say about it. We cannot contribute anything much.

However, among community-based services, for example, in this area there is a need for francophone services. In other areas you may need a heavy multicultural component. Some places you may want to have your day care in centres and in other places out in individual homes. Those are the types of things I think can be better handled at the local level. There is need for flexibility. I think we get better services and more locally responsive services. It is tough for an area office of a ministry to provide that type of tailor-making to the local scene.

Mr Sterling: As for the control of the expenditures in terms of the province giving that money out, do you think a local component of the cost is necessary?

Mrs Smith: No, I do not think it is paying the share that makes you be careful of the money. The regions should have an amount each year that is allocated, almost a block funding, but block funding for social services, and the province should back off and leave the region alone to manage it. That way it is our problem if we mess it up and our taxpayers know that. They certainly can get to us very easily. So the provincial control would be in the total amount that is allocated to that region that year, but you would stop counting the toilets for us.

Mr Sterling: In your remarks regarding Back on Track, you say that it is simplistic and that it is—

Mrs Smith: No, I am sorry, there are so many reports out there. If I had had a wagon I would have brought them all. It is not Back on Track I am referring to; it is a report that was done by a past president of AMO with David Ballinger, Hopcroft-Ballinger. It was discussed at AMO this last—disentanglement.

Mr Sterling: Okay, I did not catch that.

Mrs Smith: We have too many reports, I think.

Mr Sutherland: This is more of a quick comment than really a question: Both Mr Hopcroft and AMO seemed somewhat supportive that the Minister of Municipal Affairs was going to start the actual process of looking at disentanglement. I think everyone agrees it would be nice if we already had the solution there, but I do not think the work of Ballinger-Hopcroft or the social services review is going to be totally thrown out the window. I think the basis will come from that. But AMO did seem quite

supportive of the process when the minister did announce it at the AMO conference.

Mrs Smith: I think AMO is making a big mistake and I think you are too if you bail out at this point. If you get into the disentanglement process for another three years you are going to be three years too late to fix things. I was not at AMO, I was at AFMO, at the francophone association, just prior to that, Mr Cooke said very clearly, and I was pleased to hear it, that the government had not committed itself to the content of that report but to look at the issue and that PMSSR in particular would be part of that review. I am saying to you, make social services first. I think you should look at the ideas in that report fast, because nobody is at the moment; it is on the shelf. I think you will find some things that could be acted on quite easily up front. Take children's aid at the provincial level right now. That would be a major improvement. Thank you.

Mr Sterling: When you were talking about the management, what were you including when you talked about reforming the management process?

Mrs Smith: Definition of management? Decision-making authority for quality and quantity of service in the context of variable resources and in accordance with the provincial Legislature and strategic directions. Quality, quantity, allocation of resources within an overall amount of money. It is much more decision-making authority than the legislation contemplates at the moment. Right now it is a complete hodge-podge. Okay?

Mr Sterling: Okay.

The Chair: Fine, I would like to thank you for your presentation before this committee.

Mrs Smith: Thank you, Mr Chairman. I appreciate your taking a short break to let me get here.

The Chair: Before we break here, I would like to thank the staff, Hansard, our research staff and our clerks. During the last three weeks out on the road they have been working very hard out of their suitcases, let's say. I appreciate our trip up here in Mr Morin's area and Mr Sterling's and Mr Villeneuve's. We appreciate this eastern tour and your hospitality here in the city of Ottawa. Too bad we could not stay a little bit longer.

Mr Villeneuve: You are welcome to.

Mr B. Ward: We might.

The Chair: Okay. I appreciate the participation from the citizens of the Ottawa area.

The committee adjourned at 1657.

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

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Standing committee on finance and economic affairs

1991-92 budget

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Comité permanent des finances et des affaires économiques

Budget de 1991 à 1992

Chair: Ron Hansen
Clerk: Todd Decker

Président : Ron Hansen
Greffier : Todd Decker

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LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday 3 October 1991

The committee met at 1118 in committee room 1.

1991-92 BUDGET

Resuming consideration of the 1991-92 provincial budget.

SUBCOMMITTEE REPORT

The Chair: Could we start off with the subcommittee report.

Mr Sutherland: The subcommittee met. Several options were discussed in terms of how we are going to deal with the report on the hearings we had over the summer. I think there is a general consensus that we did not want to spend a lot of time on it. Probably each group would submit its recommendations or its comments. We would go over a final draft of the general portion done by research, but we would each submit our own report and try and get that done and out of the way.

Then we had discussion about what our next topic would be. There were some wide-ranging views on that in terms of looking at taxation issues in comparison with surrounding jurisdictions. There was talk of sovereignty issues when you are entering into trade agreements and looking at the European Community and what individual countries are giving up there. There was a look at North American free trade. I believe there was some discussion about inter-provincial trade and barriers there.

That is where the subcommittee was at. I believe each of us was going to go back to his own group and see exactly what issues it wanted to deal with and go from there.

The Chair: Mr Kwinter, is there anything you would like to add to that?

Mr Kwinter: I just wanted to comment on the report. I think we have an obligation to table a report that reflects the views of the people who appeared before our committee. Having said that, we as a caucus do not want to spend a great deal of time on it, for the reasons we stated at the subcommittee. We think the premises of the budget have changed and also that, notwithstanding that there were people who appeared before the committee, the general tenor of the people who were there was supportive of the budget, when in fact in the real world two polls have shown that almost 70% of the people are not in favour of the budget. I do not think it would do anybody any service to issue a report saying the people of Ontario overwhelmingly support this budget. That is the concern we have. I think we have an obligation to table the comments that have been prepared by the staff and the research people, but we are going to add a comment to express our particular views. That is where we are.

Mr Stockwell: How about where we are going? Any thoughts about which issue we will be dealing with next?

The Chair: That is all part of it. You have been talking to Mr Sterling and your party. Could you explain about the next direction this committee would take, so we have all the recommendations?

Mr Stockwell: I was just curious about whether the Liberals had any thoughts on where we should be going.

The Chair: Mr Kwinter, since Mr Stockwell is not on the subcommittee, could you highlight?

Mr Kwinter: I admit I have not had a chance to really discuss this with our caucus. It was my feeling that the buzzword of the 1990s is "competitiveness." I think it would be worth while for this committee to really get a definitive comparison as to how we compare in the areas of taxation and labour legislation, all the things that could influence investment and economic activity in this province.

There are studies. I have seen a couple where different groups have done certain things, but I find they are not really definitive. They talk about things but they also qualify them by saying, "We haven't looked at this and we haven't looked at that." I think that would be a worthwhile exercise. We can in fact use it almost as a road map as to where we are going, so that any time any kind of new tax or new legislation comes down, we can compare as to what that is going to do to our competitiveness. To me, that would be a worthwhile exercise, but I am certainly in the hands of the committee as to what it wants to do.

Mr Stockwell: The budget hearing exercise was, I think, more an exercise in political science than a budget and finance. It became clear early on when you saw the list that this particular budget, was generally special-interest groups with axes to grind, which we heard from on both sides of the equation, probably more so on the government's side of the equation.

It seems to me it would be a rather colossal waste of time spending any more time outlining what labour thinks of the budget. Of the groups we heard from, the majority supporting the budget were friends of the government. It was an exercise in political science and how to stack a committee hearing process. I would prefer to file the report and talk about what people said. Next time, though, if I could go on the record, if in fact this ever happens again or if it becomes policy that we do do this, we should try a little harder to find people who are a little less biased and not so much from special-interest groups.

I find that we hear from special-interest groups constantly. The pre-budget process is almost the exclusive domain of special-interest groups. They take full advantage of it. If there is one comment I would make—I do not want to take a tremendous amount of time on it—it is that in future we will hopefully hear from people who do not belong to any particular group but just have some thoughts on the budget. As Mr Kwinter said, really 70% of the

people out there do not support the budget, yet the overwhelming majority of people we heard from supported the budget. It makes you wonder exactly what the process is we use around here and exactly how reflective and accurate it is of public thought.

As far as the issues we tackle in the future are concerned, there are a number I think we could address. The competitiveness angle certainly has great interest. I find it very interesting. It may once again be an exercise in polarization between the opposition parties and the government party, because no matter how many times you can bring forward items or document certain decision-making by companies leaving the country or even the province, it is treated with a grain of salt by the government members.

It would be better to analyse exactly where we find ourselves to be competitive. We constantly hear about our health care system and so on. Yes, we probably are very competitive in those sectors. Rather than speaking in social terms, and not demeaning them at all and not playing them down, I think we have to deal more so—we are losing a tremendous amount of business in this province, and a tremendous amount of jobs. We have a great health care system and a great social service net, but we are still losing them. Something else is going into the decision-making besides those issues, because business people are making decisions to leave, to close down and move out. They are fully cognizant of our health care system and our social service net, but they are still making the decision to leave or shut down.

There has to be another angle here. There has to be another set of rationales that we should be examining to determine why they are making those decisions. I ask the government also to think long and hard about this and choose a sector it feels may be of interest to analyse. To ignore the taxation-competitive side of it is to bury your head in the sand. I think it would be both interesting and analytical to determine the competitiveness, the taxation, the labour laws and so on that go into making a business decision. I think it would be very enlightening for the government as well to see what goes into making business decisions, because at this time the feedback I get is that there are a lot of positive benefits from being in this province. There are, but the decisions that are being made take those into account and they still decide to close down and move out.

I think it would be healthy for both sides to review that angle with, I might add, a very open mind. We have disagreements; I understand that. I am just saying that we can analyse this without being too political in the process. It makes no yards for me if they close down a plant in my riding. I do not score any points. I do not want to see that happen. I would really like to know why they are doing it. That would be the greatest thing we could look at right now, and a service to the taxpayer.

The Chair: The one thing this committee could maybe take a look at, and maybe the clerk could get it, is that it has been said that it has all been positive for the budget out there with all the people who came forward. Is it a possibility that we could get a list of everybody who approached to get on? I think we got just about everybody on during the hearings, but let's take a look. We are talking

about 70% and yet we are hearing that everybody we listened to approved the budget. When we had these hearings, in order to say that everybody got there, was there somebody who did not get there to represent a certain group? I think if we saw the list of everybody who applied and who did not make it, it would give this whole committee a better insight.

1130

Mr Kwinter: I think—and I do not have an answer—that the whole process is flawed. The reason is that when you talk about a budget that is a fait accompli, let's face it, the Treasurer is not going to change his budget. He tabled his budget and the only thing he changed was changed because he got some flak on the gas guzzler tax. Because of the pressure on that, he changed it. The Treasurer has the right to table his budget, and you can comment on it, editorials can comment on it, the opposition can comment on it, but I do not think anybody has the right to force the Treasurer to change his budget. He lives or dies on his budget. He will suffer the political fallout if his budget is not acceptable.

One of the problems that I discerned quite early, if you have this kind of process where you suddenly decide that after the budget has been tabled you are going to go out and get comments from people as to whether or not they think it is good or bad, is that some of the people who appeared had the impression that they in fact could influence the budget, when that just was not the case.

The other thing is that the average person would have no interest. What are they going to do? Are they going to say, "I had to go out and comment on the budget." What for?

What you really do is attract special-interest groups who are looking for a forum in which to put forward their point of view. What you get is every single person who wants to appear, but they are only a certain segment of the population who feel there is some benefit for them to get out there and espouse their views. That is the problem.

In the same way, if you noticed yesterday in the House, the Treasurer has already announced that they are starting to work on next year's budget. I believe that, because that is the way the system works. By the time we get around to pre-budget hearings, the die has been cast and again people come in with the expectation that what they say is going to have some influence.

What we should have been doing probably was having pre-budget hearings at the time we were having post-budget hearings, because the post-budget hearings are really an exercise in futility. What are you going to do about it? The Treasurer is not going to suddenly say: "You know what? I heard that. That's right. I am going to go back and rewrite the whole thing." That is just not going to happen.

That is the problem you have and that is why I am less than enamoured with this process and what came of it.

Mr Jamison: I would just like to set the record as clearly as possible on the issue of the hearings.

One, the hearings that took place were demanded in the House by a particular party, the Conservative Party. To help the House do its business, we agreed to have the hearings across the province.

Two, I believe the vast majority of the people who applied to appear in front of the committee were in fact able to do that and, as a matter of fact, we made room for people who were inadvertently left off or misinformed as to when they were supposed to be heard.

There is a subcommittee that chooses people to be heard in front of the committee, and I may agree with you that you have the special-interest groups appearing there probably in as heavy a fashion as you would any other time. But this budget hearing that has just gone on has been across the province and we have tried to adhere to a recommendation put forward by the Progressive Conservative Party. We have done that and we have followed through on that agreement.

Moving on from that to where we should be going, there is a tremendous number of issues that face us as a province and as politicians who represent the people of this province. Something that speaks above all the things that you have really zeroed in on is competitiveness, trade, globalization of trade, trading blocks. I think it is very important because the process is going on at this very moment to put in place a North American trade system or trading block. This province should be evaluating the effects on this province on the competitiveness basis, because there have certainly been effects on the bilateral end and I expect there will be effects as great as or greater than those concerning the North American free trade agreement.

I think we owe it to the people of this province to really look at that in an in-depth way to assure ourselves that the federal negotiations are going on with recognition of our specific concerns as a province. This is a major step by the Canadian government, to expand to a North American free trade system. That can have a tremendous impact, both short-term and long-term, on the directions we have to take as a province to assure our economic future within that trading bloc.

Therefore, I would say the economic future of this province is going to hinge upon our ability to be ready to deal effectively as a government with the outcome of a North American free trade agreement, and also to look at the impact on certain sectors of our economy that may well be impacted more heavily than others. I think that is a responsibility that all of us have when we are dealing with tough economic times and times of future uncertainty. I believe that is something each and every one of us owes each and every person in this province.

Mr Sutherland: If I could just expand upon that, I think we can deal with some of the other areas that were brought up. For example, Mr Stockwell mentioned looking at a specific sector and how competitive it is. If we were to have North American free trade, which is a good idea, I think one of the areas you would want to look at, after we got an overview, might be some of the federal reps who are involved in negotiations. What are their objectives? I suggest maybe some representatives from the Mexican embassy, that type of thing.

I would certainly like to see some general overviews. But if you dealt sector by sector, obviously some competitiveness issues are going to come up in that discussion from both standpoints. I think of how Mr Kwinter and Mr Stockwell

have brought it forward. So I would certainly support Mr Jamison in that type of discussion, because it can be more encompassing and deal with some of the other issues.

Mr Phillips: In terms of the report—I think I said this to somebody—I think the biggest waste of time I have ever had in my life is these hearings, frankly.

Mr Stockwell: In your life?

Mr Phillips: In my life, if my memory serves me right. The disappointing thing is that it became very political, in my opinion. I do not have any doubt that the Office of the Premier was orchestrating getting people to appear there. I have no doubt at all. If I am wrong there, I would be happy to be corrected, but I think the calls went out from the Premier's office to come and appear. Rather than being a committee searching for the truth, it became, "Who can get the most witnesses there?"

I was rather offended, I might say, that the NDP issued its own report on August 29, summarizing what happened and saying, "Here's our report," without any discussion by the committee. It is an offence. It just became a useless exercise. I challenge any of the government members to refute my argument.

The calls from the Premier's office went out lining the witnesses up. There was not only a similarity to the witnesses, many of their speeches were almost identical, and it made a farce of the whole committee exercise. Then to issue a report on August 29 saying, "Here are the conclusions we reached," without any discussion—

The Chair: I do not have a copy of that.

Mr Phillips: Your name is in it. You do not have a copy of it?

Ms M. Ward: Nor do I.

The Chair: Yes, I would not mind a copy of it for all the committee members.

1140

Mr Phillips: "Committee Finds Widespread Support for Provincial Budget." "An overwhelming majority supported the budget." "Today is the last hearing." "It is the main concern." "Unlike the federal government who has abandoned Ontario," Christopherson says. Norm Jamison says something else. Then you said something. Do you remember what you said?

Ms M. Ward: That is a press release.

Mr Phillips: Well, it is your report on the thing.

Ms M. Ward: Yes, I remember that. I did not consider that a report.

Mr Phillips: And then the conclusions are all out there. What I am driving at is that rather than being an exercise hopefully searching for truth, it made a charade of it all. So I just say it is another little memory I'll keep over here.

As my colleague said, we will have to write our own report, I guess, and spell out why we think it was a charade. The problem I run into is that the Treasurer asked us, I think a year ago, to look at the budget process. I have had one bad taste of this thing and I am not sure this committee can look at the budget in an objective sense. I was sceptical after our prebudget hearings, and I am more sceptical now.

Maybe we will take a subject like competitiveness and examine it, but to have an objective, non-partisan look at the budget process, I am not sure we can do that. You remember, Mr Chairman, that was supposed to be one of our mandates.

The Chair: The one thing maybe Mr Stockwell can clarify is, I believe this committee went out because of the request of the third party to go around the province. So that we could have a little peace in the House, we wound up agreeing to it. Is that not the purpose? I am just explaining what the purpose was.

Mr Stockwell: Yes, I think that is correct.

The Chair: This committee did not have a choice.

Mr Stockwell: No, the committee did not have a choice. I agree with you.

The Chair: This committee went on the direction of the House.

Mr Stockwell: You are right. It was our thought; it was our concept. I guess the difference is though, I did not really think it would be so orchestrated either. I know the government members will groan and moan and say: "Oh, it's terrible. You think we orchestrate these things. This was just an honest outpouring of emotion from the public." Do you see any turnip trucks driving down the street? Because I did not fall off one, and it is pretty apparent to me that it was orchestrated. But by the same token, I suppose, when we were asking for this, we should have known better. I say it is more of a political science class than hearings on the budget process.

The other thing is, and I do not blame this committee, I come from municipal government and committees there did really good work, committees were where decisions were made. I think there are some others who come from municipal government. Committee was a very important process in municipal government. They legitimately heard deputations. They weighed their decisions and took votes afterwards, and quite often you did not know how the vote would go because the deputants had a major impact on the decision-making, which was very interesting.

But I do not blame this committee, because I do not really see committees working that way at this level of government. It is not just this committee, it is any committee I have seen. When you are out on the finance tour, you pass through with the committee on the rental hearings. They were just as bad. It was just as much a joke. Everyone was staged there and it was a big play, it was a production. It was Stratford on the road. It just comes down to who is going to stage the most deputants, or witnesses as you call them, and what the press will say in this town and what the press will say in that town. It does not add up to a hill of beans because the government is not changing its position on any of this stuff.

I guess what I would like to say is, yes, we asked for it. I guess we should have known it was going to be rigged, it was going to be fixed. I guess it was rather silly on our part not to have seen that. Again, the groans will come from the government members, but they also honestly believe the standing committee on government agencies that interviews appointments by orders in council, will vote against

one of them one day. We will leave that for what it is, the ultimate in naïveté.

I suppose what I am saying is I hate wasting my time, and I suppose I am like Mr Phillips. I think committees at this whole level of government are a colossal waste of time. It is just such a waste of time. You would be better to be picking coffee beans than spending your time here. It would be way more productive, because nothing gets changed and nothing gets accomplished.

If you just said to me, "We're not going to look at competitiveness; we're going to look at whether shoe companies should make more right-footed shoes than left-footed shoes," I could not care less, because what it comes right down to is that we have no impact. Governments are not going to change their decisions. We are going to talk about the budget, and the whole time it rolls around, the Treasurer is going to be up there in his office drafting the budget, meeting with whoever he wants to meet with, and life will go on. In essence, do what you want and pretend there is some importance attached to this process, because there is not.

Let's look at competitiveness. I do not care what Kimble wants to look at. If he wants to examine the free trade agreement or the bilateral free trade agreement or the North American, do it. That is great. But I guess what I am saying is that it seems to me that we spin our wheels here. It is just so frustrating. Maybe I am off topic, but I find it just so frustrating to sit around in committees and do nothing.

As far as the committee's going out is concerned, yes, we asked for it to go out. Maybe we made a mistake and we should have stacked the committee—and we did not stack the committee. To be perfectly blunt, our party did not stack any people to come before this committee—not one person. There was a letter sent out to certain interest groups saying, "This committee is coming." We did not force them to come out and hear. We just sent them a letter saying: "Look, this committee is going to be in your town. If you'd like to make an appearance, go right ahead. If you don't, that's life too."

Mr B. Ward: We have finished the post-budget deliberations, so let's move on. Mr Stockwell is concerned about wasting time, talking about that process for the next hour and then possibly again next week. Let's talk about, as a committee, what future projects we would like to undertake.

We have an opportunity with the proposed North American free trade agreement to look at the consequences of this agreement to the Ontario economy on a general basis, and I think we can do it in a non-partisan manner. Sure, we have our different philosophies; that is why we belong to different political parties. But I think we have an opportunity to show Mr Stockwell that committees can work.

By examining what happens or what is going to happen or what could happen with a North American free trade agreement, bringing in Mexico, the impact it has on Ontario, I think we have an opportunity to perhaps make recommendations on where future initiatives should be undertaken as far as sectors are concerned, and I think we can do it in a non-partisan manner, if we can overcome our political differences, and try to develop a consensus that would benefit this government and the people of Ontario.

The Chair: I know we are getting our frustrations out about what happened this summer and the process, but before we leave this morning, the research staff person here would like to have an idea of what the research staff is going to do. Is it reports from the three parties, or reports from the three parties plus a summary of recommendations, or reports from the three parties plus a general section written by legislative research? Maybe we can think about that a little bit as we go along here, to give them a little bit of direction on exactly what is to be done. Anne is sitting here still wondering what this should be.

Mr Stockwell: As far as I am concerned, we should not waste research time writing a report. It was a stacked, biased approach to this, and I think it would be a waste of taxpayers' money to have them write a report on this charade. That is our position.

The Chair: Okay. Mr Kwinter, can you just answer quickly on that?

1150

Mr Kwinter: I feel that we have an obligation to the people who took the trouble to appear before the committee to at least issue a report indicating what happened at the committee. Where I have a problem is with what the recommendation should be, or the endorsement or statement that this reflects what Ontario is thinking. What I suggest is that we have a factual report prepared by the research staff on what happened at the committee—"This is what happened"—and then each of the caucuses prepares a document that it wants to accompany that, and leave it at that.

The Chair: Do you still stand the same way, Mr Stockwell? I should be talking to Mr Sterling. He is on the subcommittee.

Mr Sterling: No, I think we all have a contribution to make to the discussion. I think we should just basically take what has been prepared by Anne Anderson, our research and support person, and then attach whatever we want to say to that. Basically, what she has prepared already is her summary of what was presented, and then each party may submit whatever it wants in terms of drawing any conclusions. I do not think we should have her trying to seek a consensus. Because of the nature of these hearings, a consensus does not exist.

Mr Jamison: This group of people here is supposed to be working as a committee. There is always a majority report that comes forward from a committee, and I believe departing from that would almost be precedent-setting. So a majority report should be established, with dissenting reports to be sent from those who wish. Certainly the other parties have the ability to do that, and that is what we believe should happen from this.

Mr Phillips: To correct the record, Mr Chair, your name was not in the press release. I am sorry; it was another. But the problem with that is that you have already issued your conclusions on the hearings. That is already out there, public. It ends up being a frustrating experience for all of us, to have what you would call a debate now, when according to this press release, with your party's name on it, you have already concluded it:—Unlike the

federal government, who has abandoned Ontario," etc. So why continue this charade?

Mr Jamison: That remark was designed to express my opinion during the budget hearings on how they were going.

Mr Phillips: Actually, it was not you; it was Dave Christopherson. Do you remember what you said here?

Mr Jamison: I probably would, yes.

Mr Phillips: What was your conclusion?

Mr Jamison: Do you remember what you said in the House last week, word for word?

Mr Phillips: No, but presumably this was your conclusion on the thing.

Ms M. Ward: And you made no comments to the press at any time since the beginning of the process? No one else on the other side did?

Mr Stockwell: You can make a comment to the press through a press release.

Ms M. Ward: Same idea.

Mr Phillips: "Committee Finds Widespread Support for Provincial Budget." The committee finds that the majority on it have now made their own conclusion, that is all, and I think therefore my colleague's suggestion is the right one, that we now have a summary of the facts and then each of us submit our conclusions and not waste time on a charade.

Mr Sterling: Mr Jamison claims that this is precedent-breaking. We did not break the precedent; the New Democratic Party broke the precedent. They rigged the hearings.

Mr Jamison: I take exception.

Mr B. Ward: Okay, here we go.

Mr Sterling: I have been around here for 14 years. I have never seen such disgusting behaviour on the part of the governing party as before this committee and what it did with regard to this committee. It is absolutely contrary to everything the New Democratic Party ever said in opposition. They continually said when they were in opposition that they wanted open hearings. They wanted to hear from the people, etc. Then when they are on the government side of this whole legislative process, they try to run it like the Gestapo.

They think their majority is such that they use their research staff, they use everything to influence the press coming out of this committee, instead of trying to drive for what the real feeling of the Ontario public might be. I just find it totally disgusting. I think the New Democratic Party has no idea of how the parliamentary system runs or the committee system runs. They have no feeling for the history of this system and therefore they are making a total farce of the committee system by measuring their performance over the past summer with regard to this committee.

To expect from the opposition parties some kind of co-operation at this time in trying to reach a consensus report is an insult to us. We do not want to waste our time with regard to regurgitating what the hacks of the NDP government who were brought in front of the committee have said to this committee, because we know it does not

represent the public. We know it represents organized labour. Organized labour actually had people tailing this committee around, getting its people out in each and every jurisdiction. We have never had that in front of a committee, by business, by any other group, where it actually tailed the committee around the province to make certain that its people were being heard and brought them out. The regurgitation of the same arrogant message that the union representatives had and the phoney statistics were, quite frankly, hard to the stomach over the past summer. It was disgusting.

I think the actions of the NDP government with regard to this committee have been a serious breach of the understanding of what committees are used for in this Legislature. We understand how you are going to utilize the system and we hold out little hope that this committee is going to achieve anything in the future because of it.

The Chair: These are the points that you would be putting in your dissenting report. You would have that opportunity then.

Mr Sterling: Of course.

Mr Jamison: Again, I want to clear the record. The record is this; these are the facts. The Progressive Conservative Party held up the House until we would agree to these hearings. Certainly every party has its friends and foes in political life, but the facts are clear that the vast majority of people who applied to be heard in front of this committee were in fact heard, and in a number of cases room was made so that people could be heard.

I might say that room was made and agreed to by this committee to have people heard who were not in favour of the budget. We made sure that every possible avenue was available for people to be heard. If we had got our message out better than Mr Harris's hearings on the budget—quite frankly, I expected to hear from many of the groups that you heard from in the Harris report on the budget. I was amazed not to have heard from them, considering that nearly every group that applied to be heard in front of the committee was heard. So this does not wash with me at all.

I find it quite amazing certainly that we want to depart from the standard way a committee makes a report. I believe it would be fundamentally wrong for this committee to proceed in that manner. The majority report of the committee should be made, and dissenting reports should follow where they are deemed to be necessary by dissenters.

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The Chair: Thank you, Mr Jamison. Mr Ward. I have Mr Stockwell down here again.

Mr Stockwell: No. You can strike me. I think Mr Sterling was tremendous.

Mr B. Ward: I do not believe we have to include this in the main report, but there were some groups that thanked Mike Harris for inviting them to participate in the committee hearings and then came out in support of the budget. It is also my understanding that the call was made from either the Leader of the Opposition's office or the Liberal Party itself to contact the Sudbury and District Chamber of Commerce to ensure that it was on the agenda to give a presentation as well. Those are just two items that I am aware of.

A contact was made, directly or indirectly, by the other two parties in an attempt to get organizations before the committee. As far as substance of the briefings, I think each group did the best it could. The chambers of commerce we heard from were basically the same in content. Places changed, but the content was basically the same. Probably the reason there are similarities is because of the organizations that were involved. Do chambers of commerce use the same text as well? I am not sure. I think we should proceed with finalizing this report and get it out of the way so we can move on to new items.

Ms M. Ward: I want to respond to what Mr Sterling was saying because it upset me. You were talking about there being a waste of time and the organized hacks and so on. I would just like to point out that there are, I think, 11 pages that list all the groups that appeared here and those comments are derogatory to a lot of them. If you look through these lists, I am sure you did not mean that the way that you said it.

Mr Sterling: Derogatory to the organized hacks and to the NDP caucus, I agree.

Ms M. Ward: No. Your comments to me said you were indicating that all these groups did not have validity, that it was not valid for them to appear before us.

Mr Stockwell: You grasped the concept then.

Ms M. Ward: Your comment, I think, slammed them and I do not imagine you meant it that way.

Interjection.

Ms M. Ward: You mean it that way, that the Ontario Nurses' Association message was not valid, that it did not have the right to present its comments? The association of municipalities, northwestern Ontario—

Mr Sterling: I am talking about the unions that run the NDP.

Ms M. Ward: —Women's Decade Council, the Ontario Association of Interval and Transition Houses, the Ontario Medical Association, all those groups.

Mr Stockwell: The ones that donate to your campaign.

Ms M. Ward: I am sure you would not say that about the Metropolitan Toronto Board of Trade. There have been many comments too about the waste of time. I do not see the difference between the waste of time in the committee and the time that is—

The Chair: We can argue back and forth on this, but the main thing is writing the report. Our comments are coming at the end. All three parties have their comments on what they found. To argue back and forth, we do not get anywhere.

Ms M. Ward: I think I have the right. I think I should be able to make my comments on that.

The Chair: I am looking at the time, Ms Ward.

The other thing is that, Mr Sterling, I think you brought one thing up, on discussion of areas to be looking at. I think you were talking about the European Community, about looking over there. You were not here, you were at another meeting there, so I think that was another area that you were looking at. Am I putting words in your mouth?

Mr Sterling: I think Mr Kwinter's suggestion is probably the most reasonable. We can actually enter into a situation where we do not have a party doctrine or an ideology on the part of the government and they would be perhaps a less partisan kind of hearings. That would be dealing with an issue to find out what the facts are in terms of the people we are trying to compete against. Probably the easiest and most relevant would be the United States and the jurisdictions closest to us.

It is also important for us to know what the competitive situation is in other jurisdictions as well as those that are close to us. Those would be facts that we would be collecting, and presumably we would not be entering into a free trade debate within this committee which would go nowhere. That is basically what I would support.

The Chair: Do we need any other direction here to the research staff?

Ms Anderson: My understanding is that there will be a general report, which will probably be essentially something like a condensation of the summary recommendations. Then each of the parties will write a report as well, or is the general one going to be also the government one?

Mr Jamison: We believe the majority report of the committee is the majority report; the dissenting reports can accompany it.

Mr Sutherland: I believe we will go through the same process as we have with the other reports.

Mr Sterling: No, we will not.

Mr Sutherland: No? My only sense was that Anne would come back with a written report in terms of the summary.

Mr Sterling: I do not think we should saddle our legislative researcher with doing your work. I think you guys should write your own report.

Mr Kwinter: Your report will effectively be the majority report. We do not have to agree on your report being the majority report. You will write your report, which represents the majority of the members on this committee.

Mr Sutherland: Okay.

Mr Kwinter: We will each write a report, which will in effect be minority reports. There is no reason for you to agree with our minority report or for us to agree with your report, because it is going to be your report.

Mr Sutherland: Fair enough.

Mr Sterling: I think condensing what you have done is really what you are responsible for.

Ms Anderson: Do we have any time lines?

Mr Sutherland: We should set a time line, should we not?

Mr Phillips: You have written yours already. I have got it here. We just need to write ours.

The Chair: What did I say, Mr Phillips?

Mr Phillips: In fairness to you, your name was not here and I corrected that, sir.

The Chair: Do you want to come back next Thursday?

Mr Sutherland: Sure. I apologize for missing. I was supposed to speak in the House and time ran out before I got a chance to. Have we agreed on where we are going with the next topic? My sense of what we wanted to do was that maybe we would leave it a couple of weeks, give each party a couple of weeks to come back and write it, but that we would continue on with whatever our next topic was and try to do some stuff that way.

Mr Kwinter: I will be gone all next week, so I would personally welcome if we could do it the week after.

Mr Sutherland: The report or to start the new topic?

Mr Kwinter: Both.

Mr Sutherland: Okay.

Mr Sterling: Is there any consensus, Mr Chairman, as to where we are going in the next discussions?

The Chair: It sounds like competitiveness is what I hear generally.

Mr Jamison: We have been talking about the North American free trade agreement and the competitive issue that is interwoven in that subject itself.

The Chair: It is a combination of the two then. It all is interwoven there, I believe. Does everybody agree on that? If we can get the clerk here to write down exactly our central thought and that we do not—

Mr B. Ward: Hasn't he already written it down?

The Chair: Let's word exactly what we are going to be doing so that we are not mistaken. We are looking at free trade and Mexican trade and competitiveness all together and how we compete here in North America.

Mr Sutherland: I think we are looking at competitiveness in the North American context in relation to the discussions about North American free trade.

Mr Kwinter: I will tell you the concern we have, and I have just talked to my colleague in the third party. The reason we feel a little uneasy about using the term "free trade," is that the minute you start doing that you start getting involved in the politics of it, as opposed to the economics of it.

What I would prefer is that we deal with our competitiveness. Just by the very fact that we are going to be in this competitive situation, we will have to take a look at how we compete with any jurisdiction that impacts on Ontario's competitiveness, whether it is Mexico or Hong Kong or anyone else. I would kind of prefer that we stay away from incorporating the free trade, only because it has political connotations and that is going to get us into some problems.

1210

Mr Sutherland: I understand that concern. I guess the problem we have, and certainly the problem I have, is that when you look at where the next step seems to be going, the next step is North American trade and so that is going to have a significant impact on this province. Then, if we are going to look at it and be helpful, we should be looking at how the competitiveness issue fits in there and, as I think was suggested earlier, we can look at some specific sectors in terms of competitiveness. The information that comes out about how competitive we are there, Canada's

level of competitiveness, that information is not going to change whether you do that with a country in Europe or with a Pacific Rim country.

Mr Kwinter: Can I make a suggestion that we stick to the broad topic of competitiveness and as a subheading look at those various things. My concern is that if the topic decided on is that we are going to investigate competitiveness and the North American free trade agreement, we are going to spend a lot of time debating the validity or the pros and cons of a North American free trade agreement, which I do not think we should be discussing, except how it impacts on our competitiveness. I would rather have that as a subheading in the sense that no matter what agreement, whether it is the European Community or some kind of alliance in the Pacific Rim or the North American free trade agreement, that is all going to impact on our competitiveness.

Mr Sutherland: No, I do not think we are going to debate the merits of it because there is not a specific agreement. What we want to know is what the issues are that this province should be concerned about in terms of those discussions. We have a basis to judge if, once a deal is negotiated, you have the basis to go back and judge whether it is a good deal for us or a bad one.

Mr Sterling: That is specifically what I do not want, because that has nothing to do with the provincial Parliament of Ontario. The provincial Parliament deals with labour laws and a lot of other things. You want to get into a federal debate. You want to get into a debate about whether or not we should strike a free trade agreement with Mexico or the United States or whether it was or was not a mistake and that kind of thing.

Mr Sutherland: No, Mr Sterling, that is not what I said.

Mr Sterling: That is all fruitless. That goes for naught. Maybe it is interesting out on the street or politically and all the rest of it, but in terms of what we can do as provincial legislators, it has nothing to do with it. We have to know whether our steelworkers are productive and whether our forestry industry is competitive in terms of dealing with other countries and other jurisdictions. What can we do as provincial legislators or provincial governments to put them in a better competitive position? That is what I want to know. I do not want to know whether the free trade agreement is good or bad, because we do not have any say in that. We are not involved in that debate.

Mr Sutherland: Mr Sterling, when I gave my proposal I was not saying we would get into a debate on the merits of that. I think we need to know what the issues are and out of that discussion will come some discussion about competitiveness. What good is it after having negotiated the agreement to say it is good or bad when we have no basis to really look at it? What are the issues, not whether it is good or bad, because we do not have an agreement. We cannot make that type of discussion. In terms of the Ontario

context, we know what the impact of the bilateral free trade agreement is. It should be of concern to everyone in this Legislature. In terms of, "How are we going to make ourselves competitive if we get a North American trade agreement?" I think that is where the focus is. What are those competitive issues in that context?

The Chair: Anne has just handed me a slip from the research staff and the clerk which says, "Canadian-Ontario competitive issues concerning the North American trilateral trade agreement." We have some focus here. That could be interprovincial.

Mr Kwinter: That is where I have a problem. That gives the impression that we are examining the trilateral free trade agreement and how it is going to impact on our competitiveness. What I would like to do is to look at our competitiveness with or without the free trade agreement. If the free trade agreement comes in and it is going to impact, fine. I just do not want the thrust to be that we are looking at how the trilateral free trade agreement is going to impact on Ontario, because there is a faint, remote possibility that they will not have a free trade agreement. I do not expect that will happen, but it is certainly a remote possibility.

On the other hand, the competitiveness factor is impacting on us right now. We keep hearing stories that another major corporation is going to be pulling out of Ontario for no reason other than competitiveness. They just feel they have to go somewhere else; that is happening. Hardly a day goes by where you look in the paper and another plant is not closing down, and these guys are consolidating, these guys are moving or whatever they are doing.

Just to give you an example, I spoke to a major supplier of fixtures yesterday who said to me, "We've moved 20% of our production to the United States and I predict that in three years it'll all be there." I said, "Why are you doing that?" He said: "Because we can make the product cheaper there than we can make it here. It's strictly a matter of dollars and cents."

I would like to know about that. Why is that happening?

The Chair: Mr Kwinter, we are running a little bit late here.

Mr Sutherland: I just make the suggestion that we come back at 4:30.

The Chair: At 3:30.

Mr Sutherland: Give us 4 o'clock.

The Chair: Okay, 4 o'clock.

Mr Sutherland: Can we come back at 4 o'clock to continue the discussion and give us each some more time to think?

The Chair: Let's get some of the subtleties of where we want to go so we can agree as a whole committee. This committee is dismissed until 4.

The committee recessed at 1217.

AFTERNOON SITTING

The committee resumed at 1616.

The Chair: The committee will resume. The standing committee on finance and economic affairs will take a look at the report on the budget hearings. Maybe the members can take a look at it and give some comments on it, starting off with Mr Sutherland.

Mr Sutherland: In terms of some of the introduction and maybe some general, overall stuff on the budget, I think that is good and we are going to need that. I thought we had agreed on the tack we were going to take on this issue.

May I just for a minute move on to the other issue, because I thought that was the issue we came to a standstill on this morning. Having thought about it more and having some discussions about it, it seems to me that we stalled on the issue of where the area of focus should be in terms of comparisons on some of the issues raised this morning by Mr Sterling and Mr Kwinter. They did not seem too keen on making it an issue just within the North American context in terms of involving Mexico, but certainly a comparison with some other jurisdictions.

In suggesting some way of resolving the standstill, we think it may be a good idea to broaden it, in terms of not just leaving it as Ontario and one of the neighbouring states and excluding Mexico, but including Mexico and also taking in either a European country by itself or taking in some comparison with the European Community as a whole and looking at some of the sectoral issues and how we have to deal with that. So we would suggest that maybe we should be broadening the discussion beyond what we were talking about earlier this morning.

Mr Kwinter: I agree that it should be broadened. The concern I have about zeroing in or sort of highlighting Mexico is that there is a perception—I think it is a wrong perception—that our greatest threat is because there is cheap labour in Mexico; you know, there goes our whole competitiveness situation. There is lots of cheap labour all over the world that we are competing with right now, whether it is Thailand, Taiwan, Singapore, Hong Kong, South America, Brazil, China; all these places have cheap labour.

Interjection: Cuba.

Mr Kwinter: Cuba, exactly. Our major competition is in the high value added area. It is coming from high-wage countries, West Germany and Japan. My only concern is that we do not sort of zero in on an area because it seems to be politically active. Perhaps we can take a look at our competitiveness, because a lot of the offshore investment is coming from countries like West Germany, the United Kingdom and Japan. We are in a competitive situation. We are competing to attract all sorts of industries and we have to take a look at how that relates. My only concern was that by zeroing in on the North American free trade agreement, we were going to get hung up on the pros and cons of doing it but not deal with our competitiveness.

Mr Sutherland: In terms of what we are also looking at, one of the reasons for bringing in Germany is looking

at what it does well attracting, and keeping investment there as well. I think that is what we want to look at.

Let's broaden the focus, but I do not think we can keep Mexico out of the equation because of the nature of what the future impact may be. The people of Ontario would expect us to have some awareness of what some of the issues are revolving around that and to help educate us all to try to be more knowledgeable about what the issues are, not so much what the final outcome is and what is ever negotiated, but knowing what those issues are. I think we should be looking at a relatively low-wage country, Mexico, but let us also look at a high-wage country, and let's bring them both into the equation here and do it in that type of context.

Mr Sterling: After this past summer's experience, I have very little faith that this committee is going to be able to deal with an issue like this in any kind of objective form. I think we are going to be wasting our time. I wish I did not have to come to that conclusion, but the hearings this summer were just so foreign to any kind of work of any legislative committee I have experienced in my 14 years here that I just think we are going to go off on a little bit of an expedition in having people come in and talk and we are not really going to come down with anything of great use.

I would have preferred us to go to a more specific mandate in terms of saying: "Okay, what are the advantages of a company setting up in Quebec? What are the advantages of a company setting up in Michigan? What are the advantages of a company setting up in New York or Ohio?" or whatever it is, and deal with a fairly defined situation where we could really get down. Then we would know what we were talking about when we said the corporation taxes were too high here or too high there, or property taxes were too high here or too high there.

Interprovincial boundaries between Quebec and Ontario are not fair, and I think probably the interprovincial trade barriers between Quebec and Ontario are very important for us to have a clear picture of in the next four or five months, because of the constitutional talks and the spinouts from them. It would be at least helpful for us to have in our pockets some real, hard information on what they are in terms of entering into that debate.

I do not have much faith in going into the whole free trade agreement with Mexico and the United States and the European Community at this time because of the penchant of this government just to blame everything on free trade and not look inwards towards solutions. My bias would be to try to take some very specific mandate so we could complete it, presumably, in the next month or two and then get ready for our pre-budget consultations, which I think are going to be more important than ever to deal with the next budget. There was some criticism with regard to our last pre-budget consultations coming too late in the game.

We know the Treasurer has to make up his mind on 35% of his budget by the end of January, those being the transfer grants to our school boards and to our municipalities and hospitals. Maybe we should be starting to think about that and not be going off into the Never Never Land

and giving advice on something that is not going to have any spinouts on what this provincial government can or cannot do except for what rhetoric it can play in the House.

Mr Sutherland: Mr Chair, I want to take exception to his comments about not wanting to look inward. He said we do not want to look inward for solutions. I do not see what is wrong with looking outward. Obviously, Germany has done some very successful things, so let's try to learn a little more about that. What are some of the applications there we can use in terms of how they have been successful, both internationally and within a trade arrangement agreement? Let's bring them back and see whether we can make some applications here to improve the economy. I see nothing wrong with that degree of looking outward. We can learn things from other jurisdictions. I do not think we should be afraid to do that.

Mr Sterling: I guess the only reason I say that is I knew of a former Deputy Minister of Industry, Trade and Technology telling me that two or three years ago a company moved to New York state because it could do business easier with Quebec out of New York state than it could out of Ontario. I imagine that is the case with a number of them and that is a sorry story in terms of our relationship with the people in Quebec.

The issue of the province of Quebec is the biggest issue that is going to be dealt with in the next year and a half and I really believe there is a serious threat to our country in terms of its staying together. That is why I think the competitive situation in close is probably more important than the overall world outlook at this point.

Mr Kwinter: I think we should definitely add inter-provincial trade barriers to our list, and also federal policies. We have a situation and at estimates I talked to the minister about it, but the federal government has made a determination that Ontario has the automotive industry and Quebec is to have the aerospace industry. It is quite ironic when you hear government ministers talking about how they have to save de Havilland to save the aerospace industry in Canada. The federal government has made the determination that the space industry is to be centred in Quebec. It located the space agency for that reason when nobody other than Quebec wanted it there. The industry did not want it there. It wanted it in the capital region. They did not mind if it was in Hull, but they wanted it in the capital region.

If you talk to the aerospace people, they will tell you that if they bid on a government contract from Ontario, they will not get it. They must bid that it will be done somewhere other than Ontario, whether the Maritimes, out west or in Quebec, but they say they have not a hope of getting a contract if it comes out of Ontario. That is a very significant factor.

The other thing I would like to comment on is that I agree that we should not be getting involved in the free trade aspects of the trade with Mexico, but we absolutely have to look at Mexico. The reason is that Ontario is so dependent on the automotive industry and it is really, no pun intended, the engine that drives the economy of Ontario.

George Peapples, the president of General Motors, has told me that it has—I think I have told some of you this—

four engine plants in North America: one in St Catharines, two in the United States and one in Monterrey, Mexico. The plant in Monterrey is the most productive, the most cost-efficient and the best-quality producer they have, and these are all clones of each other. They are identical plants that they have located and Mexico is the best plant they have.

The President of Mexico has told me personally that by the year 2000 they will be building 4.5 million cars in Mexico. Now we build one million cars in Ontario. The United States builds between nine million and 10 million a year, and Mexico is going to be building 4.5 million by the year 2000.

I talked to Frank Stronach, who I am sure you know is the president of Magna International Inc, and he tells me they are wrong—they are going to be building those by 1997. That volume has to come from somewhere. Here is a country that is really getting into the automotive industry and it is going to impact on Ontario. I think we have to look at that, because if we start to lose that production to Mexico, then we are going to really feel the impact of it.

I think we have to look at the competitiveness of the Mexican situation. I just do not want to get hung up on the politics of the free trade thing. Mexico is a factor whether we have free trade or not, and that is something we should be looking at.

1630

The Chair: What I am hearing from Mr Sutherland is about the same line that you are talking about. Mr Sterling, are you more in agreement with this aspect of it? It seems like the two members on either side are talking about the same book, let's say.

Mr Sterling: I think there is a difference. I think the New Democratic members of the committee are bent and determined to enter into a free trade agreement fight on behalf of labour, and that is the way the hearings in the committee will go. I cannot control that, if that is what the committee wants to do.

Mr Sutherland: I think what we said earlier this morning—and I think Mr Kwinter has pointed that out quite well—is that there are issues that we need to be aware of no matter what, and that is the focus we want to see. What are those issues that we are going to be dealing with and what are some of the differences there? I am not only looking at the low end, but we also need to look at the high end. That is why we have also suggested bringing Germany or the European Community as a whole into that equation.

Mr Wiseman: I would like to make a couple of points. The first point is, I agree with Mr Kwinter; I do not think there is any way you can discount Mexico. Anybody who thinks that is not an important factor is turning his back on the reality of what it means to go into a free trade deal with Mexico.

The president of Honda, Mr Suzuki, said not more than four or five weeks ago that if there is a trilateral free trade deal including Mexico, Honda will seriously look at building its future plants in Mexico. Hyundai from Korea, one of the low-wage labour markets in the world, is building in Mexico because the wages there are even lower. To discount Mexico

in terms of what they want to do and where they are going I think is a big mistake.

I was fortunate enough to have a briefing with the National Association of Manufacturers in Washington three weeks ago. They were talking about aspects of the Clean Air Act and the cost to American industry in terms of its relationship with Mexico. If they are worried about losing jobs for their low-wage, non-unionized sectors of the economy that have zero health and safety standards, such as those in Alabama, Georgia, Mississippi and so on, then I think we have a very serious concern to be worrying about here.

One of the things we have to look at in terms of the global picture is what is going to happen to environmental issues within the free trade deal. The way the Clean Air Act stands now, the National Association of Manufacturers in the US has made it very clear that it expects to lose jobs to Mexico, which will not have environmental standards.

They are perfectly willing to accept that Mexico will probably put in place boundaries where pollution is allowed, where health and safety standards do not exist. That impacts directly on what we consider here to be the goals and objectives of creating the society we would like.

I agree the high value added jobs that Mr Kwinter is talking about are an important area to look at. But I think one of the things that has been done very successfully in Europe that has not been done here is that they have recognized that not everybody is going to be able to do the high value added jobs, and they recognize that at some point you have to have jobs available for the persons in your economy who cannot acquire the skills to allow them to move into the high value added area.

Currently we do very little research and development in this country. I just attended a dinner for one of those successful firms in my riding where they are averaging 5% to 6% of their gross sales in research and development for new products.

I think what we have to do, in looking at this, is to compare ourselves to the very successful jurisdictions. The European economic community has developed and will be moving very quickly in creating international trade with very few barriers. How is it that they are able to incorporate into that community low-wage areas such as Portugal, Spain and Turkey and yet not have the same kind of absorption realities or loss of jobs that potentially exists with trilateral free trade in North America?

I think it is absolutely essential that we look at what is happening internationally and deal with it here from an Ontario perspective, which will allow us to develop strategies and programs that will allow most people to take advantage.

I think your comments, Mr Sterling, about the inter-provincial trade barriers are important and will be looked at in the context of the ongoing debate presented by the economic package that comes out of the current constitutional issues. I do not think any of these issues is going to go on to the back burner or be manipulated, as you have suggested, by us. They are of as much concern to us as they are to anybody. What we are saying here is that we need to have a broader scope to include more of the stakeholders in the discussion than has been the case in the past. To do that, we need examples that we can draw on, and we need

to be innovative in terms of what we are going to recommend under this.

My own personal feeling is that an analysis of how a free trade, free market situation is developing in Europe will be very good for us in offering us examples, offering us ways of dealing with some of the minutiae, whether it is banking issues, monetary issues, transfer of funds or the need to regulate in some way the value of the Canadian dollar that will allow us to be competitive, something which is not happening now, to the detriment of the manufacturers of our country.

I would say it is absolutely essential that we not rule out any source of input into the way we look at trilateral free trade, globalization and what we want to do here in terms of putting in place a program of economic renewal that will allow us to position ourselves in the world market.

Mr Sterling: I think Mr Wiseman has just proved my point. He wants to get into the debate over whether we should enter into a free trade agreement with Mexico, and I agree with Mr Kwinter. He was correct in bringing in the fact that we have to know what is going on in Mexico, but I do not want to get into a debate on whether we should be in a free trade agreement or not, because I do not believe that any member of this committee has any influence on anybody that will make one bit of difference.

What I want to know is whether or not our people have to become better trained, whether our environmental standards are too high or too low, whether our health expenditures are too high or too low, what combination we can afford to have if we want to maintain a high standard of living or whether or not we can afford to have people making shoes in this country any more or doing other kinds of jobs. That is basically what we should be getting the facts on. I want to get facts. I do not want to debate international policy on which I have no influence, nor do I suspect that any member of this committee or the Premier of Ontario has any influence on those particular issues. I guess Mr Wiseman has basically got into that debate and I do not want to spend too much of my time getting involved in an argument which has nothing to do with provincial politics, as far as I am concerned.

1640

Mr Wiseman: Mr Chair, I would like to clarify something. I do not agree with Mr Sterling. The point that I am trying to make here is—

The Chair: Mr Wiseman—

Mr Wiseman: Why? You allowed this to happen before. The point that I am trying to make is simply that those who do not know their history are doomed to repeat it. There are some valuable lessons to be learned from the mistakes that were made in the international trade agreements in Europe, and I think we can learn value and learn lessons from those.

The Chair: What I have been trying to do here is to come up with a resolution of the starting point.

Mr Sutherland: I think the issues that need to be discussed have been put forward, and I think we are getting close to a consensus in terms of how we want to deal with it. Trade is going to be there with Mexico and Germany, whatever formal trade arrangements are put on, and we

need to be aware of what those issues are, what the impact will be. Whether there is any formal arrangement or not, those are the issues that need to be discussed, and I think what we have here is a way of dealing with the issues we would like to see come out and the issues you would like to see come out.

My only concern about gathering facts is, no matter how we deal with this issue of the information we want, I just do not want it to be solely an academic exercise in which we have everyone come in, we have the professors who study Mexico and Germany, whether solely political science, economics, whatever, come in and present all the information and then we just have information like that. I think we want to try and understand what tangible ideas there are coming out, what methods are being used in certain areas to deal with that.

Germany, even in the European Community context, still has to somehow deal with Mexico. What is going on in other countries, in other low-wage countries around there? What are they doing, and what ideas are they coming up with so that they are still able to deal with that and be competitive in an international context? While we gather the facts, let's also get a little more than the facts and maybe come up with some ideas that we can apply back here in Ontario.

Mr Kwinter: I am a little ambivalent on this thing because I sort of agree with a lot of what was said by the government side and I certainly agree with some of what has been said by the third party.

I will tell you where the hangup comes: this is a political committee. By definition, we are politicians; it is very difficult to divorce us from it. I will give you an example of a concern that I see. In Germany and in other high-economy, high-wage countries, they have what is known as a *gastarbeiter* program. For those of you who do not know what a *gastarbeiter* program is, they bring in people from Turkey, from other countries, to do the menial jobs, and they pay them menial wages, and then they get rid of them. The reason for that is they feel their economy for their nationals cannot sustain what we would call a minimum wage, where they would be paying too much for the jobs that on the world market do not warrant that kind of pay.

That is a system that in no way this government, or probably any government in Ontario, would condone.

Mr Sterling: We do with Jamaicans.

Mr Kwinter: We do it in crop-picking and things. There are lots of problems like that. If you are going to be really objective and look at these things, you might have to say: "You know what? That's a solution." But politically we cannot live with that, so you say, "No, we can't do that."

My concern is that in order to be really effective, without making any judgements, I think we have to look at all those things and then, on some other level of this government, someone would have to make a determination, "That's great, but there's no way we're going to do it." That is fine, but what I do not want to see happen is that these things get filtered out early because politically we are not prepared to support that. That is my concern, and I do not mean this in a negative way, because it could come

from all three parties, where you bring some ideological baggage with you and immediately say, "We don't do that here, so we're not looking at it."

I am saying that in the crass, cold economic world, there are things happening and we should be looking at them and evaluating them and finding out whether we like it or not—it may be impacting on our competitiveness—so that at least we have a clear understanding of what we are competing against. Whether we like it or whether we would accept it or whether we would promote it has nothing to do with it, but we want to look at that. I just want to make sure that some of these examinations are not filtered out beforehand because they may not be politically acceptable.

Mr Sutherland: Mr Kwinter, if we look at the pre-budget submissions, at the post-budget submissions, at the issue of cross-border shopping, I think we all agree that there are many people who came forward who had some ideas that we did not agree with. I mostly remember the Buffalo Bargains fellow with the cross-border shopping. We are having open hearings. We are going to look for input—obviously the subcommittee is going to have to do a little more work in terms of working out how it comes forward, but I do not think there is anything to stop ideas coming forward and being presented. Then we will all make our judgements afterwards. I do not think it is a problem to have issues laid on the table. We will make our judgements and evaluations at the end of the process.

Mr Sterling: We have a limited time and you are talking about a huge topic. I do not know how you are going to do it. That is why I thought it would be more practical to identify certain goals and deal with them. To talk about the European Community, I imagine it is just a huge thing, that there are thousands and thousands of people who have talked about it. Is the idea to get an overall, bird's-eye sketch or is it to try to become pretty proficient in one area?

Mr Sutherland: Maybe I could just respond. For example, if we decided to use Germany, then it would seem logical to see if we could not get the German ambassador to come before this committee and talk about how they are dealing with some of these issues, people like that who have some knowledge. As I say, there are some people in academia who could come in and give some opinions and give us some knowledge on what they have done in certain areas, and then we can sit down and focus. Once we get a general overview that way, we can sit down as a subcommittee and focus on the specifics and who else we need to bring into our discussion to give us a broader picture.

1650

Mr Kwinter: Maybe I can be of some help. There is no question that this can be as broad as global trade and looking at every single aspect of it. Maybe, to be more practical and to try to accommodate the third party's position, what we are really trying to do in a practical sense is identify, if someone is coming to this part of the world, whether it means going to Quebec or Manitoba or New York or Illinois, what are the determinants that would weigh his decision one way or the other.

We also have to put Mexico into the hopper, I think, because that is a very definite alternative. There is very little

chance that someone is going to make a decision as to whether he is going to put his plant in Ontario or Baden-Württemberg in Germany. I do not think that is a factor. It could be, in the greatest global sense, but generally what would happen is that an investor or a manufacturer who is looking to access the North American market has to decide where he wants to be; that is, "Whom are we competing with, where do we want to be in the North American market and where are our industries in that North American market?"

Mr Sutherland: That was not the sense that I was getting.

Mr Sterling: That is where you start.

Mr Sutherland: What are some of the other mechanisms you can use in dealing with these issues? What are some of the other mechanisms Germany has used to take advantage of the situation? As we go into a more competitive situation, what mechanisms are they using, either within their private industry or in co-operative efforts between government, labour and business? Not only those mechanisms, but what type of decisions are they making about certain aspects and certain sectors of the economy, and what are they willing to do for them, and how does that fit into it?

I guess we are starting to differ a little bit on where we are going. That was more the direction I thought we would look in.

Mr Sterling: I guess it is, how do you find out where are the productivity strengths and weaknesses of a community?

Mr Jamison: By studying it, probably.

Mr Sterling: My tendency would be to go to the people who are investing, or the people who represent investors, and say, "When you have an investor coming to this community, Ontario or Canada, what are the effects that you take into consideration, or what are the strengths or weaknesses that your clients look at?" Then I would like to know if they say the educational system in Ontario is wonderful, or this part of the educational system is good or bad when they compare it with the United States or Mexico.

I understand Mexico is turning out a huge number of engineers and technical people at this time, which is attracting a lot of industry there. If that is a factor, then maybe the province of Ontario should change some of its educational policies to try to compete with that part of it.

That is what I was thinking we could get. I have invested 14 years of my life in this business. I want people to come here and invest here, provide jobs for people like my son and my daughter so that they can stay here. I want to know why people are not coming here at this time. I think I am correct in saying that at this time. If we do not find that out, then my kids, who are likely to be wealth producers, are going to go somewhere else.

Mr Christopherson: I do not think we necessarily disagree with the suggestion Mr Sterling makes and, to a large degree, that Mr Kwinter makes regarding the competitiveness issue. What we do not want on this side of the room is to have a two-dimensional review that only looks at the competitiveness issue, comparing two entities.

When you suggest that we have no control at the provincial level, that we seem to be heading in that direction,

there are other experiences in the world, the most obvious one being the European Community where a lot of social programs and social attitudes were protected and indeed enhanced in a trading block. What we are trying to do is ensure that our review—and I realize you may not necessarily agree it is a priority, and that perhaps differentiates this party from the opposition, at least at this point in time, but it is important to us that we take a look at how we can be competitive and generate the investment climate while at the same time not letting go of those things that we think make us proud Canadians and proud Ontarians. That is why we are very reluctant to enter into a discussion that is strictly and solely a look at competitiveness without, while walking down that road, looking at how we protect and promote the things in our society of which we think Ontarians are proud. I do not think we are going to come to agreement on that.

Mr Sterling: I do not differ with one word you have said. But I think you have to realize, as I have realized, that when we make a decision here to draw a line on an environmental policy that may affect an investment decision that comes in here, we have to decide what mix we want in our community. Do you want to forgo some material wealth or investment because you have drawn the line too high in that area?

All these things add up to the decision. It may be market location, it may be a whole number of things. I guess the one thing that has become patently obvious to me is that, even going back 10 or 15 years, as provincial legislators, as federal legislators in this country, we could draw our standards and our lines and whatever we wanted to without having much concern about what was going on next door to us, in Mexico or in Europe or wherever. Now when you make those decisions, you have to bring everything into the mix. You have to talk about corporation taxes; you have to talk about the social welfare programs you have in your province; you have to talk about your health care, your education system; you have to talk about the whole mix. It is not just what you pay the people. That can be a minor part of it. In fact, in most manufacturing industries, the wage part is becoming less and less a factor. It is about 12% of their cost now. It is becoming less and less a factor as we go down the trail.

I was down at Dofasco four weeks ago with Mike Harris and Gary Carr talking to the executives. The increases in hydro rates are going to cost them \$45 million next year. That is an increased cost. Now, they are huge energy users. One per cent of the total hydro in all of this province is used by Dofasco. I imagine Stelco is somewhat similar to that.

When you make policies like this, in which you are going to buy uranium from Elliot Lake at five or six times its market price, you are affecting jobs at Dofasco. All those policies are interrelated.

What I really would like to know is, when somebody comes here, what can I say to him? Can I say, "Look, we have better energy rates; we have a surer supply of energy in the province of Ontario; we have a more stable social program; our health care system is not going to cost you as much as it would in the United States or wherever"? I

would like to know what those advantages are. I would also like to know what disadvantages there are so that our governments can pull into line and be reasonable in terms of what they are demanding of the people who are providing the wealth. You have to be reasonable. If you are not reasonable, the world is their oyster. They can go wherever they want.

That was driven home to Monte and me when we went to Cuba a couple of weeks ago. Those guys have operated in Cuba in a total vacuum, away from the rest of the world. They have operated on a budget in which 80% of their trade was with the USSR, and most of it or a lot of it subsidized. Now they are being cut off.

Even before they were cut off they were not operating in a real world as to how they could be competitive with the outside. Now they have to grapple with it. It is just a terrible problem in terms of trying to become competitive on the outside. They thought they could draw a line around the shores of Cuba and say, "We can have whatever rules we want inside our country, regardless of what the rest of the world thinks."

That is no longer the way the world is going. The world is going such that you have to watch what the other people in the world are doing. I would like to know what they are doing so that we can draw the best conclusions, to provide the highest standard of living for our people, with the best possible social programs. If we do not know that combination, we are in deep trouble.

1700

Mr Sutherland: Just to respond to that, I think that is what we were saying earlier in terms of wanting to know how Germany is dealing with that reality. They have obviously been dealing with it somewhat within the European context. How are they going to deal with it in a much broader context?

We debated much of this this morning. We have been here for an hour. At times I thought we were very close and then other times it seems we are getting further apart. The focus should be in terms of how Canada or how this province is going to fit into trading in a North American context, though not necessarily in a North American formal trade agreement, with maybe some comparison with how Germany fits into a context within a trading block there.

Mr Kwinter: Can I just make an observation? One of the problems we have when we try to compare the North American situation with the European situation is that in Europe you have very small countries. You can get into a car and you can start driving in France and you can hit four or five countries in one day. You cannot do that in Ontario. You can spend three days driving from here to Thunder Bay.

Here you have population centres that are relatively equal, and they are highly concentrated. There is no such thing in most European countries. The only exception I know of is Italy, because of the wide discrepancy between the southern part of Italy and the northern part of Italy, where the government distorts what is happening by directing stuff to the south. They have very much the same experience as we do: When you artificially try to relocate places, it does not work. When I visited Italy, government officials

told me they have tried to put plants into the south and it just does not work. Generally, they have the ability to get a critical mass in their particular industries without worrying about geographic apportionment.

In Canada we have a unique situation. We have a population less than that of California. We have a country 3,000 miles wide and 100 miles deep and there is a political imperative to try to spread the stuff around. What you really do is dilute our ability to be competitive. If we were in a small country, a small land mass, we would take our aerospace industry and put it in one spot, getting all the synergies of all of the things that are going on. We would be the best there is for what we could do. We cannot do that in Canada. The political imperative is you have to put something out in BC, you have to put something out in the Maritimes. You have to do that because we have to spread this around, give these guys some economic vitality.

The other problem we have, even more critical I think, is that our trading block is with a country that dominates this country to begin with, which no other country in Europe does to another country. They are all pretty sovereign. Germany has never had a dominant position in Italy, other than when they have had wars. They have taken territory where they have overlapped, but generally each of the countries there are autonomous units with absolute control of their own economies. We do not have that. We are a branch-plant economy. It is one of those facts of economic life.

Just because of economies of scale, it is very difficult for us to be truly competitive with the United States. You get a company geared to service 270 million people and for them to service another 27 million is quite marginal, whereas going the other way, it is a serious problem. I do not know whether there is any real benefit in comparing the two systems because the basic premises are very, very different.

We now have another player, Mexico, coming on the scene. Even though they do not have the same economic clout, notwithstanding that they have 85 million people, they still have a huge internal market. If they can ever get the standard of living of those 85 million people to a level where they are a positive economic force, they are going to have a huge competitive advantage on us, if for no other reason than that large internal market.

Our problem is, we have such a small population and we have these interprovincial trade barriers which do not even allow us to maximize our access to that small population. We do not have the kind of internal market that either Mexico or the United States has and it means we are very trade-dependent. I have said this so many times it is getting a little nauseous, even for me.

Mr Sterling: Is it that bad?

Mr Kwinter: What I am saying is that one third of our gross domestic product is trade-related.

Mr Sterling: He noticed too.

Mr Kwinter: The point I am making is that it is important that we protect that and enhance it, and in order to do that, we have to know where our competition is coming from. We have to know why we are not competitive. I think that is what we should be doing.

Mr Sutherland: The issue you raise I think is one we all agree upon. Now we have to figure out how we are going to achieve some of those objectives, given the realities we face.

Mr Sterling was saying, let's just look at why people are not coming here right at this time. I do not think that is a broad enough focus in terms of how we are going to deal with that. What all of us are still struggling with is, how are we going to get the specific focus we need to achieve what we want out of that? That seems to be the extreme difficulty. We have spent an hour and 10 minutes here. I would just like to know how they see this specific focus as being something all three parties can agree upon.

Mr Sterling: I am sorry, maybe I did put it in the negative. I want to know what people look at when they come to any jurisdiction and say, "What are the factors involved in making our decision whether to invest here?" I was not trying to be negative in terms of saying why they are not coming here. I am not out to prove that people are not coming here because of NDP policies, or of federal government policies, or whatever. I am sure that is part of the decision, whatever government is there.

I want to know whether wage rates are too high or too low in comparison to people doing the same job across the border, or two borders away. I want to know what the other competitive factors are. Productivity is one and there are a number of others. What are the things that encourage a business to make that very critical decision?

You find out whether you are competitive or not from the people who are making the investments. That is why I thought a good way to start is to get somebody in who deals in that kind of business and ask, "What are the things people look at when they come to you?" If there are 26 factors, how do we in Ontario weigh those 26 factors against Ohio or Mexico or wherever it is? Then you start to understand why some issues will raise their head as being the top three they are most concerned about. I know what they are, but I may be wrong.

Mr Sutherland: If you want to do that as a small part of the whole exercise, fine. But my sense earlier was you wanted that to be the whole exercise. That was the concern. Maybe we should try to do this just as the subcommittee again and see what we can come up with.

Mr Sterling: Has anybody got a suggestion on how to start this thing?

Mr Jamison: We had better let the subcommittee take a look at it.

The Chair: There seems to be a problem. Mr Kwinter, are you away next week?

Mr Kwinter: Yes.

The Chair: Can Mr Phillips sit in?

Mr Kwinter: Mr Phillips or Barbara Sullivan, if you want.

Mr Jamison: Maybe each party could provide a motion that suggests what it would like, take it to the subcommittee and see if they cannot reach agreement to collectively recommend to this body. If they cannot—and I am not just trying to exercise a majority vote here—then we will bring it to the committee and make a decision. We have lost a lot of time and we are not doing anything for the people of Ontario going around in circles. That at least is a process that is fair.

The Chair: As I listen to the three subcommittee members, it seems to be very close. But there seem to be some areas of expansion here that just seem—

Mr Sterling: Not at all. We are all talking about the competitive issue that has been raised. I am quite willing to listen to suggestions as to how we start this.

Mr Jamison: Do it at the subcommittee level.

Mr Sterling: Okay. It does not matter whether I do it right now or I do it at the subcommittee. If the other ones want to go, that is fine. Why do we not do it right now?

Mr Sutherland: We can do it in subcommittee right now. I have no problem doing that.

Mr Sterling: Let us just adjourn and try to work it out a little more informally and then see what we can come back with. Okay? If anybody has any ideas from the other parties, that is fine.

Mr Wiseman: Perhaps we could line up a number of people who have expertise in the strengths and weaknesses of the Ontario economy, who could give us an overview to start with of where Ontario is at—what is happening in investment income, what is happening in job relocation—and maybe also have some people come in and discuss what kind of trade barriers exist in the world, either directly or indirectly, in terms of the transportation of goods among jurisdictions, and get a general sense of what is going on.

The Chair: We can relate those things to Mr Sutherland; the same thing with the other two members, who will come forward with suggestions from their members on who should be contacted to come before the committee. Actually, it is an education for all of us and gets us up to speed on what is happening out there.

The committee adjourned at 1713.

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Christopherson, David (Hamilton Centre NDP)

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Substitution: Harrington, Margaret H. (Niagara Falls NDP) for Mr Wiseman

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Standing committee on
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LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday 31 October 1991

The committee met at 1109 in committee room 1.

ORGANIZATION

The Vice-Chair: We have some issues of business to take care of.

We have received a letter of resignation as the Chair from Ron Hansen, so we will be having an election for Chair at our next meeting. I am going to be chairing today. I have to pop out at 11:30 for the diabetes press conference and then will come back.

We have had put before us an agenda regarding some of the issues. That was done up in this order for now. Maybe if we go to number 3, is there a consensus that we are not going to do a report to the House on the summer budget hearings, since they have passed by? Is that fine?

Mr Kwinter: Yes, that is fine.

The Vice-Chair: Okay, so we have that taken off.

Mr Sterling: Just before we begin, Mr Chairman, I think we were planning to meet this afternoon. I understand we are going to be discussing Bill 85 in the Legislature, the Fuel Tax Amendment Act, and I have to participate in that. I am directing this to the clerk. Is it not normal that we do not sit when we are dealing with bills which—is it in the standing orders or is it just a matter of courtesy?

Clerk of the Committee: I think it is not a prohibition against the committee meeting but a prohibition against the committee considering the same subject matter at the same time as the House. I will check for sure.

Mr B. Ward: You want to be up there, Norm?

Mr Sterling: I have to be up there.

The Vice-Chair: There are some different ideas being tossed around right now as to where this committee should go. I was thinking myself that for today maybe what we should do is have some brief discussion on the Porter report from those people from the committee who attended and then have Anne give us some more background notes on the other seminars that occurred at the Financial Post conference that was attended: the highlights of the other seminars, what people were focusing on and specific themes that were coming forward out of that.

We also had the issue of pre-budget consultations put forward on the table. I would like some feedback first before we go into the other areas. Since we are having some trouble focusing on how we should deal with the whole issue, perhaps the Porter report may give us some focus. We may want to continue our hearings focused around what was in the Porter report and have some more comment and opinion brought forward on its issues by different groups and use that as a focal point for more discussion on the issues. Maybe we should have some

discussion around that for the time being and go from there.

Mr Kwinter: I would like to comment on the pre-budget consultations. I think we should continue them but I would like to see them happen as soon as possible, so that it is not a sham, not just people coming forward, and you know it is not going to make any difference because the budget structuring is already taking place in the Treasurer's office and, regardless of what we hear in this committee, we are not going to have any impact. It would be nice to get people coming in and talking about what they think the Treasurer should be doing and have plenty of time so that even if he does not do it, at least he will have some notice not to do it.

Mr B. Ward: I think we do have some time constraints, in the sense of the number of times this committee meets. The Porter report is a timely report and we have had the competitive seminar from the Financial Post. The United Steelworkers of America gave a conference as well on competitiveness. I think there is a lot of useful information out there and it would be timely for this committee to begin to examine the various divergences of opinion out there on where the future of this country and province should be heading from an economic standpoint. There is a great volume of information out there and I think it would be of great benefit to the House if this committee began to undertake the tremendous challenge of examining what the various groups are thinking.

The Vice-Chair: Just before I go to Mr Wiseman, did everyone receive his copy? Did they get the summary of the Porter commission at their office? I believe they were sent out but I talked to some people yesterday and not everyone had it. We have extra copies here.

Mr Kwinter: The Challenge of Change?

The Vice-Chair: Yes, The Challenge of Change. We will get that distributed.

Mr Wiseman: I would like to make a comment on the pre-budget consultation hearings. When I was in the chair, we received direction from the Treasurer that he would like to see the process be meaningful and different. Unfortunately we never really got around to discussing how that could come about. I think a little discussion should revolve around how we can accomplish that goal, to see if we can make the process go a little differently and with recommendations to the Treasurer. I take the Treasurer at his word when he says he would like to have the process be meaningful, and therefore to achieve that I would see it taking place sooner rather than later.

I would not feel really comfortable about delving into the Porter report at this time for two reasons. First, we have not had time to read it, digest it and analyse it. Controversy is now emerging over some of the statements

made. The chief executive officers of some of the largest corporations in Canada, Noranda and a forest company, have made comments that cause me concern about statements in it. I would like to have an opportunity to read it and check it against other sources, and we will need time to do that. Also, I have not received copies of those other competitiveness documents.

It is a big issue and I think we are going to need some time. We should go into the budget hearings and prepare ourselves more fully for whatever items come up later.

Mrs Sullivan: I will address both issues. That seems to be the way we are going.

First, I recall the discussions relating to pre-budget consultations of this committee as we were beginning consultations last year. I will tell you, because I have worked there and I know how it happens, that at this time of the year initial steps are being taken for preparation of next year's budget. We already know that some decisions relating to that budget have been made in terms of the deficit projections, and the revenue projections are certainly going to be looked at. Clearly, as well, decisions and requests are already being made by various ministers concerning needed allocations. So the process is already beginning.

It seems to me that if the Treasurer meant what he said last year, he will be a participant in hearings here, and there will not be the private, behind-closed-doors sessions in the Treasurer's office. If he means what he said, this committee will be the place where all pre-budget consultations occur. I do not believe, frankly, that any Treasurer will agree to this.

It might be useful to invite the Treasurer to come before the committee and say what he does mean. Will he, along with Treasury officials, sit in this committee? Will this committee be the place where pre-budget consultations take place, where the questions are asked, not only by Treasury officials and the Treasurer but by members of the committee, and where the support agencies, the advocates, the sectoral representatives put their case before the Treasurer in the preparation of the budget? That includes people from not only outside government but inside government.

As I recall, in our last pre-budget hearings we had only one or two ministries come before us. They were substantial ministries—the Ministry of Health, I believe, and perhaps the Ministry of Community and Social Services and the Ministry of Education. But the issues are not limited to the large ministries, and any minister will tell you that. Will those ministers and their officials also come and make the same kinds of arguments in public that they would be making behind closed doors?

If there is going to be a change in process, I think it is going to have to be significant. The Treasurer is going to have to be frank with us about where he intends to go.

On the competitiveness issues, I am very interested in what the federal government has done with the Porter report, because it conjoined with the Business Council on National Issues to commission the report. The federal government has already decided to set up public hearings on the Porter report comparable to those for the Spicer commission. We have documents prepared some time ago but

still timely which relate specifically to the Ontario situation and the Ontario theme of the Premier's Council on technology. One of them is Competing in the New Global Economy; the other is a document relating to skills management. There may be some new issues out of the Porter report but, frankly, most of the issues in the Porter report have been covered in Ontario-specific documentation. If we are going to have hearings on the nature of our competitive position in a global economy, surely we should be reviewing material which directly relates to the provincial economy.

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As well, it seems to me we should be looking at the Economic Council of Canada document relating to the competitive position province to province, given separation or a change in the constitutional nature. That is very much a part of the competitive factors affecting our nation.

I think the pre-budget consultation should be early, and I concur with my colleague on that, but we should know where the Treasurer stands. There are a lot more issues to discuss than the Porter report if we are going to look at the issues of being competitive.

Mr Kwinter: I do not think we should get involved in trying to duplicate what the federal government has just announced it is going to do. We should not be setting up our own hearings to mirror what it is doing. My concern when I first suggested we should maybe look at competitiveness is more hands-on. I would like to spend time not looking at the macro picture of global economies and productivity and all of that, but very specific things: how taxes impact on decisions, what things determine investment decisions, plant locations, plant closings—those kinds of areas of competitiveness, very micro issues. If we can do that, I think we can be of some service to this Legislature because we can then point out to our colleagues the areas we have to address.

We might make a mistake if we get on the road of the various conference boards and the Michael Porters of the world and everybody else looking at the macro picture of what we are doing competitively. That is going to be done with the federal study and we will be the beneficiaries of that. I do not think there is any reason for us to duplicate it. I would like to spend some time on those other areas, but I also want to caution you that if we are going to make any kind of meaningful contribution to the pre-budget consultation, it has to happen now.

Mr Sterling: Perhaps we should limit ourselves in this committee primarily to what we were set up for originally, to deal with pre-budget consultations, and not stray too far from that in our overall mandate. It seems to me that once we start to stray, difficulties arise. We get into almost esoteric arguments and therefore do not really do anything reasonable.

Last week I was very grateful to the committee and particularly to the former Chairman, Mr Hansen, for allowing me to go to the Financial Post seminar on competitiveness. Of all I got out of this committee in the last eight months, that conference was probably the most useful. Other than the education part, I am not certain

this committee is going to do anything useful, and therefore I would urge the committee to follow Mr Wiseman's suggestion that we perhaps call in Mr Laughren and ask how we should approach these.

I think it is most important for us to understand when he starts making decisions on the various sections of his budget. As I think everybody knows, he is almost into the consultation period at this stage of the game. We should really look at the making of a budget in the modern context and in the context of what happens here. What really happens now in Ontario is that the budget is not made on April 30 or May 10 of the year but over a period of time, and decisions are brought into play over that period which are reflected in the document on May 10 or whenever the Treasurer chooses to introduce his budget for the year, which has traditionally been in late April or May.

We have the transfer payments, which are decided upon at the very latest by the end of January. So I would really like to hear from the Treasurer when he starts locking himself into those positions. Then I think we should go in step with that process. If the first problem he addresses is the transfer payments to the hospitals, the school boards and the municipalities—and that takes a huge chunk of his budget, probably 35% to 40%—then we should get right down to it now and start calling in the constituents who are concerned about that part.

But I think Mr Wiseman's suggestion of calling the Treasurer and perhaps some of his people in—I would really like to have sort of a chronological timetable as to how he is going to make his decision, not holding him to the fact that he has to make his decision by January 1, but wanting to know the approximate time frame when he is starting to come down on those decisions so that we can plan our hearings so they really do mean something in terms of going into that process.

If the Treasurer says, "Well, I have to make certain decisions by January 15," this committee should then shoot for having an interim report by January 15 dealing with transfer payments or whatever it should be, and then we should shoot for March 15 for having another interim report dealing with whatever decisions he is closing in on at that stage of the game. That is my feeling.

As for the competitiveness part of it, I agree with Mr Kwinter that we should not try to duplicate what is happening at the federal level. It continues to be a concern of mine, as does the constitutional issue, but I really think if we want to do anything that has the most direct effect, it is probably the pre-budget consultation and trying to introduce more logic and reason to it.

Mr Jamison: I am sorry for being a few minutes late, but I understand there has been a discussion going on about the possibility of pre-budget consultations next, or looking at the competitive issues that face us, especially here in Ontario.

The question of competitiveness is one I have heard from the opposition benches more times than enough, and it certainly is a very important and crucial issue facing this province. The direction taken by the federal government is one that I think reflects a viewpoint that would take in the full scope of Canada, Ontario being a major player in the

manufacturing end of our economy. The type of situation that prevails now in the manufacturing sector makes it imperative that we address that particular issue.

Working in the ministry that really gets the bad news first, I know it is crucial to our future to address the issue of competitiveness, and I am quite frankly amazed that this seems to now no longer be the issue, because it has been and has prevailed to be the issue as brought forward by both the opposition party and the third party every day in the House. Every day you can find some statement on competitiveness, and it is rightfully so. We are heading down a road where we are going to have to evaluate where we must go as a province and as an economy to find the avenue where government can be effective and be of assistance to the very people we rely on to promote economic growth and to provide the jobs that in turn—this is almost like a quote from the opposition side of the House—

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Mrs Sullivan: You can come on over any time.

Mr Jamison: —supply the jobs that are necessary to the wellbeing of the people of this province. I really believe that is the burning question.

Let me say, beyond that, that whether you are a businessman or whether you happen to be employed in a factory or whether you happen to be employed in the service sector, the one major overriding question on the minds of the people of this province today is in fact whether or not they are going to be employed six months or a year down the road, and that very question deals with the question of competitiveness. We simply must take the best possible look at that question, that word, that cliché—competitiveness—and what it means to Ontario, what it means as far as where we have to go as a province and as a government are concerned. I think at this point in time, if we are to reflect the mood of the people who are outside those windows on the street, the people who are unemployed, the people who are potentially unemployed and the people who are looking for a better way of doing things—that is the reflection I receive from the people of this province—then we had better do some work on that issue.

The Vice-Chair: To help facilitate the process, I am wondering maybe if for the next half-hour we could not just have Anne talk about the different sessions and go through the handouts, and maybe the subcommittee can meet at 3:30 and try to hash this out a little more, to come back here for 4.

Mr Sterling: I have to be in the Legislature. I am the Revenue critic for my party.

The Vice-Chair: How about if we met at 3?

Mr Sterling: I cannot be here this afternoon.

The Vice-Chair: Are you up for questions today? We are in question period from 3 to 3:30.

Mr Sterling: Oh, I see. Okay.

The Vice-Chair: If we went to 3 o'clock, would that be better?

Mr Sterling: That is fine.

The Vice-Chair: Okay. The subcommittee will meet at 3 and then maybe we can come back with a recommendation. I realize the difficulty at 4.

Mr Sterling: I am sorry; whenever the debate on Bill 85 starts. If it starts at 3, then I have to be in the Legislature.

The Vice-Chair: I do not know whether it is going to be the first one up today or not.

Mr Sterling: I believe it is. That is what my House leader tells me.

The Vice-Chair: Okay, I am trying to think. I am in a meeting from 1:30 to 3 myself, so that is not good.

Mr Christopherson: Could I interject? My only concern is that, with the greatest respect to all of us, we have spent an awful lot of time over the last few weeks trying to decide on our agenda and we are wasting valuable working time. I have a hunch we are not going to come to a collective agreement on what the subject ought to be. We have bounced back and forth, each of us at different times over the past few weeks, advocating either pre-budget consultation or competitiveness. I think all parties have been on both sides of the issue at different points, depending on what is happening out there. As much as I would like to see the subcommittee do some work this afternoon, because I think it has some detailed co-ordinating to do for us, I think we need to make a decision this morning on what it is we are going to do for the next few weeks.

I think our position on the government side is that the competitiveness issue is so important, and it constantly comes up. In our discussions with the Treasurer, he is and has been keenly interested in the issue of competitiveness. We want to deal with it head-on. The Porter report is a timely opportunity. There is a lot of discussion out there and a lot of people who want to comment on it.

There will always be another priority. No matter what we choose, there will always be another priority. I do not think there is a right or a wrong here; I just think it is a question of finally coming to grips with diverse opinions and making a decision. At the appropriate time, once we have had full and complete discussion, I would like to see us place a motion on the floor that says what we will do for the next four or five weeks, be it competitiveness or the pre-budget.

The Vice-Chair: I have to pop out for this press conference. What I would like to do is ask if you, Mr Wiseman, want to come up and just take the chair for a couple of minutes while I pop out and do that. Maybe you can continue discussion and process. Depending upon what you come up with at the subcommittee—I do not know whether you have luncheon meetings, I might be available—

Mr Kwinter: I do.

The Vice-Chair: Okay. We are running out of options.

Mr Kwinter: Mr Chairman, I agree that the issue of competitiveness is important, but I think the reality is that if we are going to have any kind of meaningful input into the budget we have to do it now. Notwithstanding that historically what this committee does is have some input into the budget, if we decide we are not going to do that,

that is fine as long as that is the decision. I do not think that, effectively, you can start on competitiveness and deal with that and then expect that somewhere along the line you are going to deal with pre-budget consultation. There has to be a realization that if there is going to be any meaningful input into the budget, it has to take place now. If the feeling is, "We don't really care about the budget but we think that competitiveness is more important," that is fine, as long as that is the decision that is taken.

Ms Akande: I really do not see the two as being mutually exclusive, provided, of course, we are certain about what kind of discussion and how lengthy the discussion on the Porter report and competitive issue will be. I think a lot of the pre-budget consultation will be framed by the information that comes out of the Porter report and the discussion of the competitiveness seminars. But I do agree that the pre-budget consultation has to be early. One of the suggestions that was made, to have the Treasurer identify his priority in terms of timing, would allow us to address both issues in a way that would get him timely information and at the same time allow us to discuss the Porter report and the competitiveness seminars.

Mr Sterling: I think we have a serious time problem in terms of dealing with both issues. We can talk about competitiveness for another three years and we could occupy all our time talking about it because it is a very wide-ranging subject. I agree with Mr Kwinter that competitiveness is important. I like to hear people talk about it because it is sort of a macro issue and I find it much more intellectually stimulating than hearing people who want more money from the provincial government, which is what normally takes place in our pre-budget consultations. I guess it is really in the hands of the government members to make that decision as to which way they want to go on it, but if we want to do anything that is meaningful, the first choice in my view is pre-budget consultation.

I would point out to you, Mr Chairman, that in the Legislature we are at Bill 85, which is the Fuel Tax Amendment Act. We have to deal with Bill 86, Bill 87 and Bill 130, all of which are tax bills, and if they go as slowly as Bills 83 and 84, we can expect two, three or four more weeks of debate on those tax bills. That draws away from this committee the members who are required to be involved in that. We also have our constituency week break—the week of November 11—so you are not talking about a great number of meetings between now and Christmas.

If there is a decision that we are going to have some time to meet during the winter break period, perhaps it might be more fruitful for us to go a week in February or whenever dealing with competitiveness at that time, and I think it is more fruitful for us now to get in the pre-budget. But really, because the committee, as you know, is—and I believe rightly so—controlled by the government side, that is my two cents worth.

Quite frankly, I do not want to talk about it any more. I want a decision made. If the government members feel they want to talk about competitiveness, let's do it and get some witnesses in here and talk about it. If we want to talk about the pre-budget stuff, then let's get Mr Laughren or

some of his officials in to talk about how we could structure that. But let's get on with it.

The Acting Chair (Mr Wiseman): We just calculated there are six hearing days before Christmas.

Mr Sterling: If tax bills are being discussed those days, then you can knock one or two of them off.

Mr Christopherson: Do I understand that we will not have a meeting this afternoon as a result of some of the members here having to participate in House debate?

Mr Sterling: You can have a meeting this afternoon if you want. The standing orders, as shown to me by the clerk a few moments ago—I knew there was some rule, but I did not know the specific rule—say we cannot meet if we are considering a bill here when the same matters are being discussed in the House. You can have a meeting this afternoon if you so choose, but it has been common courtesy in most committees that if the main thrust of your committee is discussed in the House, then usually the committee does not sit.

Mr Christopherson: Okay, then I think it is even more important that we try to reach some kind of decision today, even if the subcommittee meets another day prior to our proper sitting day to work out the details of whatever it is we decide. We feel strongly about doing the Porter report, there is no question. But we have always been, and tried to be, very sensitive to the concerns and thinking of our colleagues on the other side of the committee room. In a reflection of that concern, I would like to ask for maybe a 10-minute recess so that we could have a fast caucus on it, come back maybe at 10 or 5 to 12, put a motion on the floor, debate it, vote, and know where we are going, if that is acceptable to our colleagues.

Mr Sterling: That is fine.

The Acting Chair: Okay. We will be recessed for 10 minutes. We will return at 11:50.

The committee recessed at 1143.

1204

Mr Christopherson: Mr Chair, we have had a chance to caucus on this, and there is certainly a real division as to whether we ought to do competitiveness or the pre-budget consultation first. We are going to respect the thinking of Mr Kwinter on this, and we certainly cannot go wrong going to the people and allowing them to come in and having as timely an input as possible on the pre-budget consultation.

I would like to stress, however, that in my discussions with him, the Treasurer has emphasized that he wants to have as early an announcement as he possibly can, which means that time is of the essence if we are going to do this. It is a shame we have wasted these last few weeks.

I suggest that we indeed place a motion that says we do the pre-budget consultation for the MUSH sector first, that we try to do it all within two or three days, if that is at all possible, and also that we invite Treasury staff to come in for maybe a half-hour before we do that to ensure we have an overview of the kind of economic situation that the budget development is taking place in.

Having regard for all of that, I move that we indeed do as I have just outlined.

The Acting Chair: All in favour?

Motion agreed to.

The Acting Chair: Should we instruct the clerk to set up the appropriate deputations to begin coming in next week?

Mr Christopherson: In consultation with the subcommittee.

The Acting Chair: Through the subcommittee?

Mr Christopherson: Yes. We should start out if we can with the Treasury presentation on the overview of the provincial economic situation.

The Acting Chair: Invite the Treasurer in first, you mean?

Mr Christopherson: No, the Treasury staff, just to give an overview so we know the content. I must emphasize again, Mr Chair, that if we are going to do this and have it be meaningful, which we sincerely want, we have to do it as quickly as possible and try and use as few days as possible to conclude our work.

The Acting Chair: If I understand this correctly, direction to the subcommittee will be to determine the deputations to present, the first deputation to be from ministry staff for next Thursday morning.

Mr Christopherson: For half an hour, on the economic overview of the province, and then move right in, if we can, to deputations, trying to bunch them as much as possible, I think, and to bring in the major umbrella groups, recognizing the time constraints.

The Acting Chair: Thank you. Any further discussion? Seeing none, this committee is adjourned until—

Mr Christopherson: Next week, I believe.

Mr Sutherland: Are we not meeting this afternoon to have an overview, or is everyone comfortable?

Mr Christopherson: Apparently we cannot, because one of the matters in the House is also a matter before this committee.

The Acting Chair: The committee can have an overview this afternoon, if that is the wish of the committee. No? Then we are adjourned until November 7, 10 o'clock.

The committee adjourned at 1207.

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Acting Chair: Wiseman, Jim (Durham West NDP)

Vice-Chair: Sutherland, Kimble (Oxford NDP)

Christopherson, David (Hamilton Centre NDP)

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Akande, Zanana L. (St. Andrew-St. Patrick NDP) for Mr Hansen

Clerk: Decker, Todd

Staff: Anderson, Anne, Research Officer, Legislative Research Service

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Standing committee on finance and economic affairs

Pre-budget consultations

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Première session, 35^e législature

Journal des débats (Hansard)

Le jeudi 7 novembre 1991

Comité permanent des finances et des affaires économiques

Consultations prébudgétaires



Chair: Vacant
Clerk: Todd Decker

Président : Vacant
Greffier : Todd Decker

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LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday 7 November 1991

The committee met at 1012 in committee room 1.

PRE-BUDGET CONSULTATIONS

MINISTRY OF TREASURY AND ECONOMICS

The Vice-Chair: This is the beginning of the pre-budget consultations process and we are here in committee room 1. This morning we are going to have a briefing by the Ministry of Treasury and Economics. We have from the ministry Bryan Davies, the deputy minister; Phyllis Clark, the assistant deputy minister and chief economist of the office of economic policy, and Tony Salerno, director of fiscal planning, policy branch. Would you like to come forward now.

My understanding is that two documents are being presented this morning, one on the economic outlook and another one on the fiscal environment and overview of major transfers, and that the presenters have agreed to take questions along the way as they go through the presentation. We will try to help facilitate that. It might be best if those questions were simply questions of information rather than any of the other types of questions, things you do not understand, and then we will divide up the time afterwards. We will work on the basis of going for about a full hour altogether, if we could keep it to that time line. If we need to go a few minutes more, then maybe we will. I would like to call upon you to begin.

Mr Davies: Thank you very much, Mr Chairman. As you have already indicated, in response to the clerk's letter we have prepared two documents we thought would be useful as a focal point to assist the committee in its deliberations. We understand the committee is concentrating its early hearings on the major transfer payments to the so-called MUSH sector, so in the second document we included an overview of the major transfer payments. Hopefully that will be of some interest and use.

The way I am proposing to proceed, if it meets your satisfaction, is to ask Phyllis Clark, to whom you are already introduced, who serves as the chief economist in the ministry and the assistant deputy minister of the office of economic policy, to present the first document, which is called Ontario's Economic Outlook: 1991-1992 and Medium Term. That really summarizes what is in there. The short-term outlook, as we call it, is this year and next. Medium term, which is always very difficult to try to forecast, is the 1993-95 period. So you will find that this document is broken into those two parts. Phyllis will start, however, with a page or two highlighting recent developments, which gives a good lead-in, I believe, to the rest. Then at your pleasure, you may want to devote a certain amount of time to that, or when Phyllis is finished I will be calling on Tony Salerno to go over the fiscal environment and major transfers piece, which is the second piece. If that is okay, we will just start like that.

Ms Clark: I am going to go through the recent developments in an on-the-one-hand on-the-other-hand fashion, since that is how they train us in economics. The first thing I want to talk about is the signs of recovery, and then, having given you that, I am going to talk about the weaknesses that persist in the economy.

On the first side, Ontario's real growth output went up 7.6% in the second quarter of 1991. That was one quarter earlier than we had expected the recession would end in Ontario and the growth was very strong, so that led us to revise our budget forecast upwards slightly. You will see that when we get to the forecast section.

Since the February trough, employment has increased about 46,000 in Ontario. That compares to 77,000 in Canada. Our unemployment rate has eased from its peak of 10.2% to 9.2%. Tomorrow both the Ontario and Canadian labour market numbers will be released and we will probably see that unemployment will continue at that pace or maybe even be slightly higher.

Mr Davies: That is for the month of October.

Ms Clark: Yes, sorry. The release tomorrow is for the month of October.

In August the Canadian leading indicator went up 1%. This was the second month only that every single component of that indicator, all 11 components of the index, went up.

In the United States—and we always look to the US economy because that is one of the prime movers of our growth—real GNP rose 2.4% at annual rates in the third quarter. They always release their GNP numbers fairly quickly and then revise them each month, so we will see what happens exactly with those numbers in the coming months.

Despite those signs of economic recovery we do have certain weaknesses persisting in the economy. The first thing is that we expect that both job and GDP or output are going to continue to grow at a much more moderate rate, especially when we compare it to the growth in 1983, when we came out of the 1981-82 recession period.

Also, we have the Canadian real GDP number which was released for August, and it fell 0.3%. That is the first output decline we have had since last March. Retail sales, which is a very major factor in any growth we have in the economy, were down 2.1%. This was primarily due to auto sales, another very large component of the economy. The outlook for retailers has not been very good and they seem to have lost a lot of confidence in their expectations in the next little while. Finally, in September, year-over-year unit auto sales in Canada rose 10.6%, but this followed an 8.5% drop in August. So you can see there is a confluence of circumstances, some indicators up and some down, which leads us to look at our forecast with not a jaundiced eye precisely, but a careful eye.

At the same time, we have interest rates declining while our dollar is strengthening. This is unusual. Usually these two move in opposite directions. The prime lending rate is now down to 8.5%. This is the lowest level since early 1978. What we have, though, is nominal interest rates easing, but real rates are remaining high by historic standards and the Canadian dollar is just continuing to strengthen. All economists are wondering how it can stay so high, but obviously expectations about the Bank of Canada's policy are the prime factor in the strength of the dollar right now, and it is around 89 cents.

On the good news side we have the CPI inflation rate at 4.6% in September. This was down from August and it is down from the peak of 5.7%. That was the GST peak that we experienced in January. Wage settlements are also starting to moderate in Ontario. They averaged 5.4% in the second quarter as compared to 6.8% for the whole of 1990.

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Now I am going to turn to the short-term outlook after giving you that brief overview. The first thing we have are the numbers. When we say "current for 1991-92," we are talking about the revision we did following the release of the second-quarter GDP numbers, so these numbers were produced in September, and the contrasting numbers in the shaded area are the numbers we produced for the budget. You can see, because of the one-quarter-earlier-start growth, that we were able to revise our real growth numbers up. As compared to a decline of 3.3% in real GDP, we now expect GDP in 1991 to decline only 1.9%. We have higher export numbers, better housing starts and better-than-expected consumption to account for that increase. At the same time, we expect inflation to be slightly more moderate in 1991 than we previously forecast. Rather than 5.6%, as we anticipated in the budget, we now see inflation for the year averaging 5%.

In job creation, we are also more optimistic on that side, although a loss of 162,000 jobs is not a great cause of optimism. Nevertheless, we see the unemployment rate dropping to 9.6%. We thought it would be around 10%, from the peak of 10.2%.

Similarly, for 1992 we are more optimistic, with real growth up to 3.8% and CPI down to 3.2%, from our 3.7% expected increase before. We are also expecting stronger job creation: about 101,000 as compared to the 84,000 we had forecast in the budget. This flows through into a decrease in the unemployment rate down to 9.3%. Nevertheless, you can see that this not very strong or robust growth. In 1983 again, when we came out of the recession after 1981-82, we had extremely strong growth, around 5.5% to 6%, and unemployment was much lower.

What we do have underpinning growth are lower inflation due to the higher dollar and lower mortgage rates. That is what we expect to be reflected in the 1992 growth number. This improvement is really consistent with other forecasters, and what we provided you with on page 4 is a survey of other forecasters' projects for the Ontario economy. This is for the 1991-92 period. When we get into the longer, medium-term outlook, you will see that there are fewer forecasters. But they also have about the same

results as these ones show, and we are in the middle of the pack pretty much in terms of forecasts.

If you look to the bottom, you can see what our forecast as of October was for 1991 and 1992 for the major indicators like GDP growth, job creation, unemployment and CPI. What we are doing is coming about midpoint in the range. We have very high growth in 1992 from Informetrica—this is a forecasting firm—as compared to its very low forecast for growth in 1991 of -2.5%. Actually, their numbers were done in July and they have not updated their forecast based on the second-quarter numbers, so they probably will be coming out with some update soon on that one. Nevertheless the 5.7 is extremely strong, given what the outlook was like at that time.

On page 5 what we have done is broken down real GDP into key sectors. You can see that recovery is under way, but it is uneven across our major sectors. First, the rebound in the auto sector is driven by auto exports to the United States, but we do not have a uniform recovery pattern there, so that might not be as strong as it looks at this point.

Other manufacturing factors are improving, but fairly slowly. This is an area where we have lost a lot of jobs during this decline and where we do not expect the rebound to bring us back to the level we had before.

Construction also remains weak. There is an improved housing picture, but on the non-residential side we have a very large capacity in office space, especially in major urban areas, and we do not expect strong growth in that area.

The retail sector: The recovery is modest. Signs of weakness remain in the sector and expectations are not very good. Profits are still far below recent levels. In fact, they are down around the levels that they were in the 1930s. The hit on corporate profits through this recession was tremendous, so business confidence is understandably mixed.

When we turn to the labour market, we can see that the recovery does not have a great deal of impact on the labour markets in Ontario. Our peak-to-trough job loss during the recession totalled 260,000 people. Central Ontario was especially hard hit. The GTA bore a disproportionate bulk of the job share loss this time. The Toronto area accounts for about two thirds of the Ontario workforce, but employment fell in that area. The unemployment rate practically doubled. It fell 6.1% during this recession, and that was the largest drop in any region. The unemployment rate has continued to rise since the second quarter. It went from 9.6% to 10% in the GTA, and 41% of Ontario's unemployed are in the GTA at this point.

Also, unlike other recessions, losses were disproportionately high in the males and youth sector. The reason is manufacturing and construction—and these are male-dominated occupations—lost a great deal of employment during this period. Women are primarily in the service sector, so although their unemployment losses were high, they were not as high as males and youth.

We do not expect employment to reach its pre-recession peak until mid-1993, but it will be up 101,000 people, or 2.1%, in 1991. To date, manufacturing and service employment are showing the strongest recovery, but we see the unemployment rate as coming down gradually. This is common after a recession, because what you have is the

encouraged-worker effect. At the beginning of recession, you have a discouraged-worker phenomenon where people just drop out of the labour force and the unemployment rate can paradoxically drop, but as you move into a recovery, people are encouraged, come back into the labour force, and what happens then is you get a slow drop in unemployment even though people are getting back into work. That is what we expect to happen over the next few quarters.

I referenced the manufacturing section earlier, and you will see on page 7 that the recession has been particularly deep in that area and the recovery will be slower. What we have shown here is the peak percentage of employment in manufacturing in 1982, then what happened in the trough—again, the peak from 1983 to 1989, the trough and the recovery to date—and you can see how the percentage of unemployment is gradually declining in that sector overall. The manufacturing employment fell as quickly and as far in 1989-91 as it did in 1982-83. In fact, we had a two-year recession for manufacturing, as compared to a one-year recession for the economy as a whole. Employment is now recovering, but more slowly than it did in 1983. There are about 150,000 jobs lost in manufacturing alone.

The Ministry of Labour also does data based on permanent job loss or factories that close—these are factories above a certain size—and those permanent job closures in 1990-91 exceeded those in 1982-83 by about 15,000 jobs. Manufacturing is declining as a share of our total economy. This is one of the structural changes we can see happening in the economy today.

When you look at CPI on the next page, you can see that there is a GST spike in the beginning of 1991. That is about 1.5%. Nevertheless, inflation has moderated from the 5.7% we had in January and it has now fallen to about 4.6% in September. We expect it to go down to near 3% in the beginning of 1992. That is because you are doing the year-over-year comparisons and you see the GST influence drop out.

This reflects a great number of factors, and these are all macroeconomic factors. The Bank of Canada's target for the end of 1991—this is not really a target; this is a milestone, as it calls it—is 5%, and it is going to be pretty close to that for the economy as a whole. For the end of 1992—and this is a target—they want 3%, or a band to 4%, and we expect that to happen. By mid-1994, they want to be at a range of 1.5% to 3.5%, or a target of 2.5%. At the end of 1995, they are looking for a target of 2%, or a band of 1% to 3% inflation. That is very low inflation.

We also have continuing high real interest rates. These are nominal interest rates less the rate of inflation. We have an appreciation of the Canadian dollar, and this always helps us on the inflation side.

Wage increases are moderating, and that is due to high unemployment. Continuing high unemployment has had an impact on the private sector and we have decelerating inflation, which has worked through into the moderate wage increases.

We have looked at that in detail on the next page. What we have here are the quarterly percentage increases for wage settlements, and you can see that we are dropping in that area. We have gone down to 5.4% in 1991, second

quarter. We do not have the 1991 third-quarter results yet, but we think it is going to stay in around that range or drop. The public component of the first two quarters in this year were 5.6%, which corresponds to the 6.5% for the economy overall, and 5%, corresponding to the 5.4%.

1030

Mr Sterling: Can I ask a question here?

The Vice-Chair: Sure.

Mr Sterling: When we look at your estimate of inflation as going from I think 5.5% or 5.6% to 5%, and then we look at the wages, 6.5% to 5.4%, you are saying the next quarter is going to be 5.4%?

Ms Clark: We expect it to be around or below 5.4%.

Mr Sterling: So it is going to be half a point better than inflation.

Ms Clark: The wage settlements, yes.

Mr Sterling: Does that mean we become more unproductive? Is that a fair conclusion to draw?

Ms Clark: I think it is a little more complicated than that. First of all, when people make wage settlements, they generally look back at inflation and they want to do catch-ups. They do not look forward. So the question of competitiveness is not based solely on labour costs; it is based also on the question, can you sell your product abroad?

Mr Sterling: But our gross domestic product was negative in August, was it not?

Ms Clark: The Canadian GDP was negative in August. That does not necessarily mean the Ontario GDP will be negative, but it will probably be down from the 7.6% it was in the second quarter. In the second quarter, Canadian GDP grew at 4.1%; we grew at 7.6%. If Canadian GDP was down 3%, our GDP growth will probably be slow and maybe close to negative, but it is not necessarily going to be negative. We are waiting for those numbers.

Mr Sterling: But if our GDP is down, the inflation is down and the wages are up, does that not tell me—no?

Ms Clark: Those are the percentage increases, and they are based on a small sector of whoever is bargaining at that particular time, which does not necessarily mean that wages as a whole through the economy are up.

Mr Sterling: Okay, thank you.

Mr Jamison: To try and answer your question in a little more depth, Mr Sterling, from my understanding, traditionally wages have lagged on the way up, when inflation increases and settlements lag on the way down, probably in the area you are talking about. That is history and the way settlements go. What we are saying is that there is a decline in wage settlements, and I think that is what is being pointed out here, subject to the pressures that are there and the moderation in inflation.

The Vice-Chair: Would you care to continue?

Ms Clark: Sure. Are there any other questions on the wages?

If you look at corporate profits, you will see that they are the lowest since 1983, and in fact they are very low. We have had a record 63% fall in profits over the last two years; that is, since 1989. Profits have been squeezed by

the cyclical decline, and also in the exporting industries by the high value of the Canadian dollar or the appreciating Canadian dollar.

Cyclical profit recovery has now started. Nevertheless, we do not expect during the recovery that we are going to reach the pre-recession levels during the period we have forecast. What we have is a lot of pressure from the wages and prices, international competition and the high dollar that are going to restrain growth in this area.

I am now going to turn to the medium term, which is 1993-95, unless there are any questions on this year and the following year.

Mr Carr: Just a quick question. Last month Canada had the largest export it has ever had to the United States. How did Ontario fare last month?

Ms Clark: We can get those for you. I will get back to you on that.

Mr Carr: I just wondered if Ontario was leading or following the rest of the country.

Ms Clark: Generally we lead, but we will get to those specific numbers.

Mr Carr: We might not this time, though.

Ms Clark: Again, we are going to be comparing to the numbers we had for the budget outlook. You will be able to see those in the shaded columns on the right-hand side. We do not have very much change from the budget, and this is because as we get further out with forecasting, we become less sure of our accuracy and therefore do not change numbers quite as much, based on current events. But we do expect increased immigration to lead to stronger domestic demand, and that is going to help us generally across the economic indicators, but it will keep unemployment high. We will also have higher dollar and smaller wage gains to reduce inflationary pressures over the medium term.

What we have is a revision down in real growth in 1993 and 1994, from very moderate levels in any case, so we are going to continue to grow moderately with low inflation in the medium term. Job creation will be relatively good, but still not enough to bring our unemployment rate down below approximately 8%.

We have looked at what other forecasters have said for the 1993-95 period and have done those comparisons on page 12. Again, you can see that our moderate growth is about the middle of the group of forecasters that do go out in the medium term. There are some people who expect very strong growth in the near term, tapering off, but most forecasters for this recovery expect moderate growth, easing up through the period.

What we have looked at on page 13 is a comparison of the major sectors of the economy in the recovery period after the 1981-82 recession and after this recession, just to give you some idea of the comparative growth from the various sectors. Also, the message of this chart is how moderate the recovery is going to be during the period of expansion this time.

What we have is a recovery now, led by housing and business—

Interjection.

Ms Clark: I am sorry?

Mr Sterling: I am just saying, the nice light stuff, the good old Tory years when we had—

The Vice-Chair: If you have questions about information, the editorial comments can come afterwards, okay?

Ms Clark: Let's look at the individual components of growth. What you have here is consumption growing at about half the rate, or even less than half the rate, of what it did during 1984-86, and this shows the slow income growth people are experiencing in earnings, as well as the high debt, and we have also got a relatively low savings rate during this period.

The government sector does not include the transfers or public debt interest. This is our expenditures on real goods and services. That is staying about the same as it did in the other recovery during this—I am sorry?

Mr Wiseman: I have a question about consumption. I read somewhere just lately that credit cards out there are at about \$13 billion in terms of debt. Are you able to put that into any kind of perspective? Is that part of your projection, people paying off their credit cards, as opposed to using them?

Ms Clark: That is part of the normal reduction in debt loads that people usually go through after a recession. No, we do not break it down just based on a specific kind of debt.

Mr Wiseman: I am wondering if the psychological factors around this recession, which is deeper and wider and more structural than the previous ones, is going to have a longer-term effect on these consumption patterns. Are you able to measure that?

Ms Clark: What we do is look at people's expectations and consider what is going to happen based on changed consumer confidence in the economy. Also, this is a period when we have had really a lot of problem disentangling some of the structural changes that are happening and people's attitudinal changes. So those kinds of things are factored in, plus the changing debt load, just the hard numbers we can get on household debt as well as household assets.

What you had in addition this time was a very big change in people's asset values due to the values of the houses they held, due to the change in prices. But we do look at that.

I cannot answer you about the specific components. Models have a difficult time factoring in very specific slices of things that are so ephemeral in a sense.

1040

Mr Davies: If I could just add, though, as Phyllis pointed out, I think it is always difficult to forecast three years hence. It is difficult enough to forecast one year hence or even one month hence. I think it is becoming more complex because of the structural changes in the economy now. Most of our forecasting is based on models that have been developed over time that are based on an accumulation of data that has been integrated to identify, if this goes up, then historically that goes up or that goes down.

A number of us, and I think all of us at this table, are starting to appreciate that those models, based on historic

patterns and relationships, will probably have to be fundamentally altered in the future because of the fundamental changes that our economy in this province, and indeed in this country, is experiencing.

It makes forecasting all the more difficult when you are having such a sea change in activity.

Mr Poirier: Were you listening this morning to Newsworld? They were discussing that particular point. They had a whole panel on this morning.

Mr Wiseman: I am an original thinker.

Mr Poirier: Fair enough. Why? Because your credit cards are up to their full load. You are helping to contribute to that \$13 billion. Is that what you were thinking? I think Jim has a point. I listened to this debate with Garth Turner and others, left and right, being interviewed by Don Newman.

The whole thing about this consumer debt, what is happening; discussing this with some of the bank people in my riding where in the spring they had to hire a whole bunch of other loan agents because they could not cope with the loan demands; talking to some of my friends who have to shut down a number of jobs in their businesses; looking at the type of personal debt that people put on their shoulders through this year, only to lose their jobs in the fall—it really boggles the mind.

I have a feeling that because of this non-traditional period we are entering right now, we will have to have a much closer look at that as an indicator of what is happening out there. With this \$13-billion debt load on credit cards alone, at the rate of interest—and they were really complaining about that, because the House of Commons claimed it was being asked by consumers, the taxpayers, to look at why the banks are charging these ridiculously high interest rates.

What is happening to this personal debt load? Is it moving? Is it not moving? Is it increasing? Is it stable? Is it decreasing? I have a feeling this is going to be a very critical factor for a lot of households in Ontario. With the jobs disappearing—I do not give a damn what the figures say about their increasing—a lot of the people are going to be faced with such a ridiculous personal debt load, including the credit card debt at that type of percentage still today, that this is going to make it or break it for a lot of households.

Just from what I have seen discussed in my riding, this debate this morning from members of the House of Commons—very, very worrying, believe me—to have this kind of debt load, and if it is going to stabilize on the cards and with the interest rates and the jobs being lost, this might say a lot more than we have been able to see from that before.

Ms Clark: That is true. I do not know if economic theory is any help in these instances when people are experiencing that kind of pain, but there is something called a lifetime income hypothesis that says people accumulate debt at the beginning of their life because they can pay it down as they move into higher income categories and as they age. A typical example is people acquiring mortgages when they are young and paying them down as time goes on.

What is happening now with the quintiles of population that are moving through the aging process is that we

have the baby boom in the 35- to 44 range that is working its way through. They are at periods where traditionally and theoretically people would expect to have very high debts, but that does not change the fact that at high interest rates, and having lost value on their assets on the other side during the recent cycle, or their jobs, that it is a very difficult time, yes.

Mr Carr: Yes. The government sector is the only one that is increasing over some of the previous years. Could you explain why that would be? Page 13.

Ms Clark: It is a very small increase. What has happened here is that the government sector has increased in terms of size. That is true. We are spending slightly more of the GDP, but we have held relatively constant given the increase in demand in the economy on the government sector. But yes, the expenditures are up slightly in that sector.

Mr Carr: That would be things like housing, government—

Ms Clark: It would be our purchases of goods, our payments to people, salaries, so goods and services generally.

Interjection: It includes capital too.

Ms Clark: Oh yes, and it does include our capital expenditures, which we have been increasing gradually.

Without going into the other sectors in great detail, I want to point out again how strong housing is. This is driven partially by our expectations of, not increasing immigration, but immigration to the levels that the federal government is now going to permit, and also increasing expenditure on the machinery side for the business investment sector of the economy.

Exports and imports remain at about the usual relationship between the two that they usually have.

On page 14, we have looked at some of the major risks that you expect in any economic forecast. All forecasts are driven by their assumptions. As soon as you make major assumptions, you can go through to the results fairly clearly; but once those major assumptions are altered, all your results are altered as well.

What could happen here that would improve everything in our economic outlook is that if the federal government eased its monetary policy slightly, this would cause interest rates to come down even more quickly. Real interest rates would probably drop. The dollar would ease. We would have an increase in exports, overall GDP growth would be up and the unemployment rate would be down. Of course the CPI would probably be up. Also, if we had stronger than expected recovery in the United States, this would boost our exports and generally make our growth higher. We do not expect either of these to happen, nor do we expect the downside risks which we have listed to occur.

We do not expect the dollar to continue to appreciate to a much higher level, which would hurt us on the exporting side but help us on the importing side. Also, if we had a decline in the United States recovery—and that is something that is extremely unusual as you move into a presidential election year—that would stall our recovery.

Mr Wiseman: The projection, when we did these hearings back in January, I guess, was that the dollar

would start to fall, that we would be looking at an 82-cent or an 83-cent dollar. The dollar has defied—

Ms Clark: Gravity.

Mr Wiseman: It is grave all right, but it has defied what was expected. What are the components that led to the dollar continuing to increase when logic predicted that it would decrease?

Ms Clark: It is primarily the Bank of Canada's policy. The federal government's policy on interest rates has kept the dollar high; the targets and Mr Crow's determination to maintain the value of the dollar. Foreign exchange markets have believed this. They say he is committed to getting price stability. That has made Canada and Ontario a very good place for foreign capital. We have had large foreign capital inflows which have kept the value of the dollar higher than economists, who look at the purchasing power parity or the comparative value of goods in various economies, think the value of the dollar should be.

Yes, our forecast was for the value of the dollar to come down to 84 cents. I would be willing to bet that almost every other economist who is looking at the real flows or the real production factors in Canada or Ontario compared to the rest of the world also expected the dollar would decline.

A lot of economists and a lot of forecasters about exchange rates are amazed by the value of the dollar now. The only factor that we can think of is the credibility of Mr Crow and the Bank of Canada's policies about inflation.

1050

Mr Jamison: Coupled with what you are saying, most of the manufacturers I have talked to, especially the primary manufacturers—I am talking about steel, the people who cannot get up and move or change that quickly in a process—have been saying to me that it is one of the gravest impediments to them to really export. Of course our economy is designed on that basis, to export. For example, in basic steel it has been a tremendous aggravation in market share alone, where we have seen the American share of our steel market go up tremendously and our share of the American steel market decline, even though we have the ability to produce in a very efficient way, such as at plants like the Lake Erie works, at Nanticoke or the Stelco plant; Dofasco is continually upgrading. But their message to me is one that really zeroes in on that.

I wonder how that will affect the ongoing state of recovery, in your mind.

Ms Clark: A higher dollar always makes exporting more difficult and that makes the GDP growth rate slightly lower than a lower dollar would, that is true. I think on the question of import penetration into markets, the dollar is a factor there and also product mix is a factor, those two things together. The other resource sectors, like pulp and paper, have also felt the value of the high Canadian dollar.

Mr Carr: I just have a question. As you know, the federal government set the target of between 2% and 3% inflation rate. I think you just said that the credibility is there. I think everybody believes they will force it, no matter what, to get to that. In order to do that—and I notice you are predicting inflation at 3%—where do you see the

dollar then? Looking at all the statistics and knowing they will not let up, that they will get it to 3%, where do you see the dollar?

Ms Clark: We do not forecast the dollar. We have also done some evaluation of what happens when you do forecast rates in dollars and it is best just to put a ruler down. I am not going to get caught in that game.

Mr Davies: Perhaps I could add that virtually every other forecasting body—and the banks really try to forecast the dollar because it affects their bottom line. Qaid Silk, who is sitting behind me, follows these matters for us and may be able to elaborate, but I think I am correct in saying that all the banks and the big investment dealers have concluded with some reluctance that the strong dollar is here to stay. Almost all of them were saying at the beginning of the year that it was going to be coming down to the 84-cent or 85-cent range. Every one of them I speak to now says it looks like it is going to stay up there in the 88-cent or 87-cent range. I did not hear anyone arguing that it would break 90 cents, but anything is possible these days, it seems. Qaid says I got it right.

Ms Clark: What we have also provided you with is an appendix of historical data. You can just flip through this at your leisure. It is a comparison between performance in Canada and Ontario on major economic indicators, along with the percentage changes. We thought that might help your discussion.

Mrs Sullivan: I have a couple of comments that I really think we should have further expansion on. I think I should say to the committee that the people from Treasury indeed served the government well in its projections in the last budget. It appears they are within one or two points of where they anticipated, through their analysis, the government would be at this time of the year in terms of economic trends. I think that is useful.

One of the areas that I think we need to explore a lot more relates to the corporate profit table you have on page 10, the relationship of that to capital spending projections in virtually all sectors. I note that Statistics Canada indicates that its projections from the major corporations report that capital spending is likely to increase by 1% next year and that the year after there would be a real decline of more than 7% in capital spending. Part of that is a direct result of lower corporate profits, but another part relates to the fragility and availability of capital, for risk or debt or equity purposes, that is coming into our economy. I think if we could have more information, that would be very useful. That is, it seems to me, as much a systemic economic problem in Ontario as any other matter.

Ms Clark: Yes, it is true. We agree with that and we will look into that. I have here the capital spending by large companies. I am sure you have seen this in the *Globe and Mail* today and you were referencing those. Yes, it is a problem, and as corporate profits fall and we have high-capacity utilization, that does feed through into expectations of lower business investment. As an economy in Ontario, we have all recognized that we do not have nearly the level of capital investment that we think we need for

the future. That is a systemic problem that we have to address as a province and as a country.

Mr Sterling: We hear all these arguments about having a lower dollar and how attractive that would be for exports and for our manufacturing sector. What are the arguments for having a high dollar? If you are going to keep your inflation rate down, the higher dollar probably serves people on fixed incomes rather than those who have a great deal of income, so it would seem to me it would be a kinder policy to those who are less fortunate. I understand that Sweden went through a number of devaluations in the 1980s when it found its productivity was low, and that it has not really come out in a positive way for them. I understand, in attacking your debt—government debt, public debt—that if you keep your inflation rate down, you can service that debt or deal with that debt in a more reasonable way.

Ms Clark: Let's be clear. I think everybody would prefer to have lower inflation as compared to higher inflation. You have to sever the dollar from inflation in some instances, but the entire economy, particularly people on fixed incomes, is better, although there is an argument that creditors and debtors benefit differently from high and low inflation. But I think, based on expectations of what is going to happen with prices, business investment and consumer confidence, it is better to have low inflation.

Now you get into, what is the value of having a high dollar as compared to a lower dollar? In economic terms, again I think it is the stability that you want to have in some instances. If the dollar is stable, that does not feed any changes in price through to imports into the economy, which can create inflation, so I think what you are looking for is stability in some sense. There is the question of competitiveness abroad, and again, at a certain level of the dollar a company will or will not be competitive, but it is the difficulties of price changes that are difficult to cope with.

With progressive devaluations, at some point you run out of room as to how much you can devalue. You just cannot keep devaluing your currency to penetrate into a foreign market, I think what everybody would like to see, or what economists would say makes the economy function more smoothly, are stable prices and stable dollars. There are advantages to having a lower price for some exports, but it is clear that stability would be just as useful, I think, for most sectors.

1100

Mr Sterling: Is there any economic measure of what the real value of the dollar should be, other than demand and the credibility of the governor of the Bank of Canada?

Ms Clark: There is something called purchasing power parity, which compares the intrinsic value of goods produced in one economy compared to goods produced in another economy. Based on those kinds of measures, economists say the dollar or the currency should be worth X. However, that looks at just the real side of the value of the dollar. There is also the financial or capital side of the value of the dollar, so you have to consider what happens there in terms of capital inflows and outflows. Based on

purchasing power parity, we think the dollar is overvalued and should be lower, probably in the 80-cent range.

The Vice-Chair: Okay, if we could just leave it there with questions, maybe we should continue with the second half of the presentation and then we will come back to those who still have more questions after we have heard the rest of the presentation.

Mr Davies: As I indicated, the second part is an overview of our fiscal circumstance as we are now sitting. It also provides the committee with a thumbnail sketch, as it were, of the major transfers. As I understood it, that is what the committee is going to be focusing on in its deliberations for the next while. I would ask Tony Salerno to take you through the document marked "Fiscal Environment," the part II package.

Mr Salerno: This section essentially divides into three small segments. One gives the picture of the general fiscal environment in which the 1991-92 budget was constructed. It provides a summary of the update of the fiscal picture as of the second-quarter Ontario Finances and concludes with a brief overview of the major transfer recipients.

In setting the 1991 budget, Ontario had to cope with one of the most severe recessions in the province's history. In fact, for the first time in memory, revenues this year were projected to decrease by roughly 1% from last year's actuals. Part of the reason for this decline in revenues was clearly the recession, but another major component was also what the federal government was doing with its transfers. It largely was offloading to the province. The actions of the 1990-91 budget alone cost the province \$1.6 billion this year in reduced transfers from the federal government.

Mr Sterling: Can you tell us how you calculate that \$1.6 billion? I read that the transfers actually increased last year; did they? Is this based on some 1988 formula or something like that, what you would have got if this had happened?

Mr Salerno: This is based on the transfers that would have come from the federal government based on our spending. A large component of that would have been social assistance. Under previous rules they would have picked up 50% of social assistance costs.

Mr Sterling: Okay. So you are basing it on their not having capped.

Mr Salerno: That is right. They capped their contribution at 5%.

Mr Sterling: Yes. Now, I asked for figures on total income taxes collected by the province and the federal government, and you people provided them to me. I looked at the total package, your percentage of what you got in 1988 and what you were projecting to get this year. They are your figures. Basically, if you had taken the same percentages as you received in 1988, you would have received in personal income taxes about \$750 million to \$850 million less than you received this year. That tells me that you picked up tax points within the shift of what has happened within the personal income tax area. Am I correct in that?

Mr Davies: Maybe I could take a quick run at it. I do not think it is fair to say we picked up tax points.

Total tax revenues on the personal tax side were up through the late 1980s because the Ontario economy was growing more rapidly than the rest of the country. The transfer payments relate to costs associated with delivery of social services, post-secondary education and health. It is those areas that are reflected in the \$1.6 billion, because the federal government unilaterally changed the formulas that had been agreed upon as to its sharing of those elements. The \$1.6 billion relates to that rather than to revenues collected on our behalf by the federal government.

Mr Sterling: Yes, but I guess in fairness, in terms of looking at the overall picture, if you complain about getting less money from the federal government, and the federal government and the provincial government change their income tax regimes—I believe they knocked a few points off the federal tax level and we have increased it progressively over the last four or five years.

Mr Salerno: In terms of the sharing, the tax points the province receives in lieu of cash transfers from the federal government have not changed since—

Mr Sterling: I know, but we have changed them unilaterally here.

Mr Salerno: For the personal tax rates, the province can impose any rate it chooses. That has nothing to do with the federal government.

Mr Sterling: Well, sure it does.

Mr Salerno: We both occupy, for instance, the sales tax room; we both occupy the corporate tax; we both occupy tobacco and fuel taxes and so on.

Mr Sterling: You see, what I am saying is—

The Vice-Chair: Just trying to facilitate the process here a bit from a time standpoint, maybe we could have one more response from the Treasury people, and then I need to move on because we have a couple of other people who want to ask some questions around this, and we still have to get through the presentation.

Mr Davies: Mr Chairman, I will keep it very brief. We would be glad to come back and discuss this at greater length, but I think we should distinguish between the role of the federal government in being the province's agent in collecting certain taxes and its role in collecting taxes on behalf of the entire country and redistributing those funds according to previously agreed upon programs like the established programs funding program or the Canada assistance plan. There is a distinction there, because in one case the federal government is merely acting as the collection agent, and even that has complications, because it collects and pays us in instalments based on what it thinks it is going to collect.

Mr Sterling: I have to respond, and I will be as brief. I think the person on the street looks at his income taxes as income taxes, period, and if the province takes a bigger part of the total package that he pays—if he pays \$10,000 in income tax and the province in 1988 was taking 50% of that, but now takes 55% of it—we will keep it constant

dollars for the sake of clarity—then I think the province has basically stolen—not stolen but—

Interjection: Let me rephrase that.

Mr B. Ward: I do not think the average worker looks at—

Mr Sterling: If the federal government has taken less, then there basically is a transfer of resources from the federal government to the provincial government, which you are failing to acknowledge.

Mr Carr: I had a question on the revenues, the decline of one percentage point, which was the first year-over-year forecast revenue decline since 1945. How did we fare versus other provinces in that regard: better, worse, the same? Any idea, just overall?

Mr Salerno: Worse, for two reasons: first, the recession is much more severe in Ontario; second, the impact of the federal actions hit Ontario disproportionately.

Mr Carr: Why would that be?

Mr Salerno: Because CAP, for instance, the social assistance sharing, was targeted specifically at the richer provinces, Ontario being one of the three: Ontario, BC and—

Mr Carr: How did we fare compared to the other rich ones, the BCs and so on?

Mr Salerno: —and also because social assistance spending has been growing faster, again because of the severity of the recession in Ontario, with Ontario picking up the whole cost now, beyond the 5% that the federal government will share. In other words, the federal government has capped its contribution, regardless of the cost, at 5%. As the next point illustrates, for social assistance increases you have 47%. Everything beyond the 5% is being picked up by Ontario fully.

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Mr Carr: How do we fare versus the other rich provinces though? I know there is a difference between the rich provinces and the poorer, but versus the other ones? We fared worse still?

Mr Salerno: Yes. The recession in Ontario has been much more—

Mr Carr: So revenue in Ontario declined more than in any other.

Mr Salerno: That is correct.

Mrs Sullivan: I just want to make a point that the decrease in the rate of increase and then ultimately the final bang from the feds have been things the province has really known about and has been able to build into budgets for a long time.

I recall that when Mr Nixon was Treasurer there were very clear signals. Indeed the rate of increase in the EPF transfers was well known at the time. It was very clear that the feds were going to become tougher and tougher on the provinces. So in terms of budget-making Mr Sterling's point is, "Yes, we should give the credit to the feds for transferring some money," but we have known for a long time that the decrease is one that has hit Ontario hard—it has hit other provinces hard as well, but particularly Ontario,

Alberta and British Columbia—and that it is going to continue to hit us harder.

One of the things that Mr Sterling raised, which I hope when you get to the spending pressures for this year, related to the income tax collection agreement—if our PIT is down, should you not also include that “last year there was a windfall because PIT was up”? Should you not also be projecting a decrease in the PIT transfers as an expenditure pressure or as a revenue pressure, in terms of your budgetary planning? Do not answer that now, but when you get on to that page.

The Vice-Chair: Maybe we can continue with the presentation.

Mr Salerno: Just to conclude on this page, despite these severe pressures that we talked about, the government is maintaining its deficit target of \$9.7 billion for this year and the strategy to reduce the deficit over the medium term.

On the next page we highlight or summarize the projections for the year as updated in the second-quarter Ontario Finances. You will see that the deficit, the last line on the table, is essentially on target. There is a very marginal deterioration of \$14 million.

Overall, the revenues are unchanged at \$43,037,000,000 and the consolidated expenditure is up only marginally at \$16 million. That is the impact or the effect of all the changes that have been made in-year. I will go to those in two pages from this.

On the next page we highlight the in-year changes to the revenues. We talked about the revenues being up \$2 million, or essentially unchanged, but there have been some changes in the makeup of the revenues. In keeping with the news we have heard about what is happening to corporate profits, corporate taxes are projected to decrease an additional \$70 million from the projection in the budget. This makes the year-over-year decline about 28% from last year.

The mining profit taxes as well—they are income-sensitive—show a \$10-million decline. Tobacco tax is up, in fact, \$30 million. This is up from our projection. We had anticipated a very significant drop because of both the federal tax increase that was announced in the budget and our own increases, but the decrease is not as severe as we had anticipated. The land transfer tax also is up, mainly because of the strong sales at the low end of the market in the early spring. All other taxation accounts for another \$8-million increase, leaving a net decrease in the tax area of \$17 million.

Other revenues are up \$15 million. The key change there is a decrease of \$10 million in the vehicle and driver registration fees. Interest on investment is up \$25 million. That is because our liquid reserves this year are a little higher than earlier anticipated.

Federal payments are offsetting decreases. The federal government has removed the export tax on softwood lumber, which it used to transfer to the province. This will result in a reduction in those transfers of \$9 million to the province.

Mr Davies: I do not know if it is appropriate to address Mrs Sullivan's observation on the vulnerabilities of tax elements at this page or later. As Tony has already

pointed out, we have taken corporations tax down despite the fact that we started the year with a very low estimate of a very high year-over-year decline. We have made that decline even higher in our estimates at this stage.

With corporate income taxes, though, most companies operate on a December-to-December year, so you really do not know what their tax filing is going to be until they file, usually in March, which is very late in our year. So it is still our best estimate and it is not inconsistent with what is being reported in these profit declines, but it is very difficult to project whether or not we will have to adjust that one way or the other towards the end of the year.

Retail sales do not show up on this list of adjustments we made in the second quarter, because for the first number of months of the year that are being reported on here, retail sales were on target. The critical months for retail sales are the one that we are now in and December, in January we will have a much better fix as to whether or not we are on board and on target with retail sales.

I would point out that our year-over-year estimate right now shows a negative growth. What we are estimating is a negative growth in retail sales tax. That is despite the fact that inflation is going up. Remember, we pay our sales tax on the full cost of a product, not on its cost minus inflation. So that is a big year-over-year drop in retail sales that we have already brought on board.

The third one, and again it is not on the list, is the one Mrs Sullivan alluded to: personal income tax. As I was pointing out in one of the comments on Mr Sterling's question, the federal government acts, in effect, as the collection agent for the province on personal income tax, as it does for every other province except Quebec. It pays provinces on instalment, as it were.

It attempts and does its best job in attempting to guess how much personal income tax revenue is going to come in and starts paying on account in instalments to the provinces, effectively on a monthly basis. Then periodically, and it is usually once or twice a year, it comes in with a reconciliation as to what was paid on instalment and what was actually collected. Those adjustments come in November-December and again in February-March, somewhere thereabouts.

In some years those adjustments have been positive. In fact in the late 1980s this province found itself on the winning end of those adjustments quite significantly, because no one at the federal level or at our level had forecast how quickly the Ontario economy was really growing. There will be occasions and there have been occasions in the past when those adjustments will go the other way, and we are waiting with some anticipation to see how they will go this year.

Mrs Sullivan: My point was, this could be a year when indeed the windfall will be a negative one and some of the actions that were—

Interjections.

Mrs Sullivan: The fancy term, the opposition word is always, “It's a windfall.”

Mr Davies: A windstorm in this case.

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Mrs Sullivan: A windstorm? It could be.

Last year, by example, because of an apparent windfall in transfers, the Treasurer was able to preflow some capital money, by example, to a hospital sector, I think it was. I think it was the health care sector anyhow; teachers' pensions was one area. This year there will not be that opportunity, and indeed you discover to your surprise that there is much less of a transfer than what had been anticipated because the feds report so late.

Mr Davies: That is absolutely right and there is no question that budget-making is going to be very difficult for the coming year, as it was this year. The impacts of the recession that we now hope we are coming out of still linger on when we have unemployment rates above 9%, hopefully below 10% now, and we have the pressures that are being faced and the structural changes in the economy. It is a very tough time to try to balance revenues and expenditures in any way, even to meet targets that many thought had unduly high deficit levels.

Mr Phillips: I am sorry for being late. I thought the meeting was cancelled. The thing I cannot figure out is that the economy is performing substantially better than Treasury thought it would in virtually every aspect. You project next year it will perform substantially better than you used to think. Why are the numbers not improving substantially? Why is the deficit not dropping as I would have thought? Why are our costs not dropping as I would have thought?

Mr Davies: I wonder if I could let Phyllis Clark answer. She did go through a presentation earlier on and highlighted those changes. I think that as economists we would probably not use the adverb "substantially" to comment on those changes, but I will let Phyllis elaborate.

Ms Clark: Sure. For 1991 what we expect is a decline of about 2% as compared to a decline of about 3% that was anticipated in the budget.

Mr Phillips: Yes, I know that.

Ms Clark: For 1992 we forecast 3.8% real growth as compared to 3.4% real growth. Our long-term growth has not changed from the moderate forecast that we had before.

Mr Phillips: I know all the figures, by the way. On the four key indicators you used, we are performing what I call substantially; you say marginally. Why are the numbers not calling it?

Ms Clark: One reason is that nominal growth in fact is down because we are doing better on CPI. Nominal growth is down and that does make a difference. If you look at the nominal growth on page 3 of the economic section, what you have is nominal growth at 6.8% for 1992 as compared to 7.3%.

Mr Phillips: Could you pick it up in the CPI?

Ms Clark: CPI is down.

Mr Phillips: On your four key indicators for this year, they are all substantially better. I would not think that this would be my expectation. The deficit should be dropping beyond what you think, and the cost should be.

Ms Clark: The unemployment rate, although better than anticipated, is still very high.

Mr Phillips: Yes, but we built a higher unemployment rate into the numbers and they are now better.

Ms Clark: But nevertheless high. What we are talking about are different degrees. We are still having very high unemployment, and the fallout that comes from high unemployment is—

Mr Phillips: I know that, but I just—

The Vice-Chair: Mr Phillips, I want to leave it there for the time being only so that we can continue on and finish the presentation.

Mr Phillips: I just need a complete answer to why the numbers are not better.

The Vice-Chair: Okay. We can come back to that. I would like to have them complete the presentation on the transfer recipients issue and then we can come back and continue questioning on other issues.

Mr Salerno: Before we move on to the transfer recipients, I would like to finish the fiscal update. The revenues, as I said, are essentially on target. Given that there have been significant in-year expenditure pressures to maintain the deficit target at \$9.7 billion, those expenditure pressures have had to be dealt with internally through lower spending in other areas.

The next page demonstrates that and it gives you where the pressures have been. The key expenditure areas have been in the social assistance case load. We are now anticipating an additional \$250 million to meet the needs there. Payments to the teachers' pension fund are also higher by another \$215 million, and extra firefighting \$53 million. These are the key changes, the key pressures that have had to be dealt with.

To manage these, the government has taken a number of actions. All direct operating expenditure of the ministry has been constrained by 5% to save \$100 million this year. This will be carried on into next year and the full saving next year will be \$200 million. The delay in the implementation of the wage protection fund—

Mr Sterling: Can I ask a question here? There is a pressure of \$240 million on the increased social assistance case load. When I look at your figures for the Ontario short-term outlook, you show that job creation is better by 22,000 jobs and the unemployment rate is better by 0.4%. Why are you out by \$240 million?

Mr Davies: I think this really comes back to a question Mr Phillips was asking: If the economy is improving, why are expenditure pressures not going down and revenues going up? The quick answer is, on the social assistance program in particular, these things lag. They lag because people are just getting into the programs. We might have an improvement in the pattern next year or later this year which, with the restructuring changes to the social assistance program in Ontario over the last several years and the impact of those structural changes, eligibility criteria and so on, could be changing the nature and the takeup of the program, which we were only estimating at the time.

Because of the changes, we did not know exactly what would happen.

With respect to why revenues do not go up automatically with increases, I think Phyllis hit on the main point: We collect taxes on inflated dollars rather than on nominal dollars. If your nominal dollars are not going up because your inflation is coming down, your taxes do not respond as quickly as you would otherwise think they would.

Mr B. Ward: On social assistance, the federal government made some changes to the UI system, and it is my understanding those changes impacted in the sense that people were falling off the UI safety net quicker and on to social assistance. Is that part of the impact?

Mr Phillips: That would have been built in, though. That is a year old.

Ms Clark: But still there was a large fallout from that and it did have an impact on our social assistance case loads. The social assistance case loads have been bigger than we were forecasting.

Mr Sterling: My concern is, when we are going into the social assistance programs do we know what they are going to cost us? What \$240 million tells me, in view of the other figures you present in your budget, is that we do not know what the heck we are doing in terms of these social assistance programs. We are creating programs without accurate cost estimates.

We knew what the Canada Employment and Immigration Commission cutbacks were going to do, or we should have known, and we knew what the improved social assistance programs were going to be, or we should have known, yet what we are seeing is sort of a reverse of where the figures should be. What should have happened is there should have been less spending on social assistance, according to the figures I have here, not more.

The Vice-Chair: We did say we would take about one hour and we are at about an hour and 15 minutes. I am trying to speed up the process here a bit, if you would like to continue, please.

Mr Salerno: I will give you a couple of indications of the fiscal environment as we see it now for 1992-1993. The situation is continuing to be weak. The recovery is not as strong as it was after the last recession in 1982-83. The recovery is weak and very vulnerable.

The key factors that move our revenues do not seem to be a source of major strength. Corporate profits are not projected to recover strongly and, furthermore, the losses that have been accumulated may be carried forward, which further reduces the growth in our corporate income tax; personal incomes again are expected to increase only moderately, which will auger badly for the growth in our personal income tax; retail sales tax will start increasing next year, but again, not at a very strong pace, and the unemployment level is expected to remain relatively high, which again will maintain the pressure on our social assistance programs.

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Mr Phillips: On the other side of it, every single economic indicator is better than you thought when you prepared

the original plan. With the CPI down lower than you thought, salary settlements lower and costs lower, I would have thought the economic outlook would have improved our fiscal outlook.

Mr Salerno: I just reiterate what has been said before. One of the key indicators, the nominal growth, is in fact lower than anticipated earlier, and nominal growth does yield additional revenue. That is the one indicator that triggers all revenues. For instance, we apply the retail sales tax on the entire price, including inflation. If that is lower, the take there will be lower. Incomes will tend to be lower with lower inflation.

Mr Phillips: Salary settlements will be lower. I just cannot understand why, if our economic outlook is substantially better, our fiscal outlook is not substantially better. It just does not add up.

The Vice-Chair: We seem to be getting into a bit of a disagreement here, or we cannot get the question answered right now. If we continue, we will give you another opportunity to ask.

Mr Salerno: Turning very briefly to the major transfers, we have a few pages here that describe the essence of the major transfers, who they are, the amounts they receive from the provinces and the composition at least in terms of where the largest component of the transfer in fact is applied.

Major transfers represent approximately 32% of the provincial budget of \$16.7 billion for this year. On this page we have summarized who they are—hospitals, universities, colleges, school boards and municipalities—and the amounts they receive from the province. We have indicated here that essentially wages and salaries are the largest component of their expenditure, ranging from about 50% for municipalities to 80% for universities and school boards.

Hospitals is the first one we highlight here. We have indicated grants are provided to 225 hospitals. I do not think there is much point in going through each individual one. If there are any specific questions you would like to ask, I will leave it there.

The Vice-Chair: Maybe we can go back and open it up for questions. I had Mr Poirier on the list. I may have to slip out because I am supposed to be speaking on this bill; if I do, I will ask Mr Wiseman to sit in the chair.

Mr Poirier: Looking at this picture globally, I appreciate that very much, but what I see, having played with statistics myself as a public servant and now as an MPP, is that you are giving us a bit of a traditional set of tools for a traditional situation in our socioeconomic conditions. After much reading and discussion here at Queen's Park, Toronto and in my riding, something tells me that we are about to enter, if we have not already and we are going to remain in, a socioeconomic situation that is not going to be traditional.

For example, talking to the bank in Hawkesbury in my riding, population 10,000, where there are a lot of manufacturing jobs but they are teetering on the edge of disappearing for good, people were rushing like hell to get loans. They had to hire more loan officers in the springtime. Talking to people who have had to cut back on jobs, young people making \$30,000 this spring took mortgages for \$180,000, \$200,000 homes—of course their wives

work in grocery stores or whatever like that—they were completely oblivious to what the situation was with manufacturing jobs. I am so surprised the banks would have given them those type of mortgages. Now they are losing their jobs, with only their wives working in convenience stores or something like that.

These jobs are probably not going to come back with what is happening with the possible bringing of Mexico into the free trade deal in the springtime by the feds and the lack of investor confidence that may be hit very hard with whatever happens to Canada, bloody heck, even though we seem to think we have discussed this so much in the past. We are fed up discussing it. The fact remains that no matter how you shake your head or take a shower about it, it is still there.

You talked about the cyclical nature, where people are sitting it out waiting for the economic situation to get better. It has always been cyclical. There is always a trough, but for each trough there is a crest. I am wondering what type of crest, if a crest and when a crest, if it lasts longer with the feds transferring even less down to us, and the worldwide confidence in investment in Canada when we do not even know what Canada we are going to get, not 10 years from now but in 1992, which is just around the corner.

When I look at the employment figures and when I read that unemployment is down, I am very leery because I do not believe the Statscan figures for unemployment for local situations or whatever, because in my riding a lot of the people have stopped bothering to look for a job. They have gone off unemployment, not because they found a job, but because they ran out and they are not even bothering to look any more.

That particular tough aspect is the figures are down. I look at the official figures for Prescott and Russell and I look at a place like Hawkesbury within Prescott and Russell that has over 20% unemployment and just about all the manufacturing jobs are disappearing—two more closures in the last two weeks. I look at the productivity aspect. I was looking at some of the European magazines I read. Canada had the lowest productivity for all the G-7. It does not look good. If we are not going to be competitive, if we are not going to be productive or if we are going to be less than the other developed countries, what the heck does that mean for Ontario? What does it mean for Ontario manufacturing jobs?

Barbara mentioned the capital investment. The outlook is a heck of a lot worse than what I see here as a short-term, even mid-term, document for the the whole aspect of constitutional considerations, which are not here.

Relatively speaking, even though this is not necessarily an outlook about which to go on the front lawn and yell, "This is fantastic," I think it is going to be a hell of a lot worse than this when you have put it all together and when you have moved back far enough to get as objective a look as this. What is happening to our Ontario? What is going to happen to our Ontario when you have put all these things that are not in here together? We are not in the traditional mould here. Something is happening to Ontario that has not happened before and it is going to stay with us for a heck of a while longer.

Mrs Sullivan: Until the next election.

Mr Poirier: Yes, and even longer than till the next election. Whichever government is going to take over four years hence is still going to have to deal with this. I am saying this is in a non-partisan way. We are going to have to deal with this as Ontarians and as Canadians, with whatever is left of Canada, in a heck of a lot longer mode than is predicted right now, when I put this and the rest all together. How do you feel about that?

Mr Davies: Someone once called economics the dismal science. I think Mr Poirier is making it very dismal indeed. I am not saying he will not be proven to be correct.

Mr Poirier: I hope I am wrong, but I am afraid not.

Mr Davies: I am sure we all hope we are wrong.

I would make a couple of observations. Downside risks exist indeed. On the second point that you alluded to, the reliability of data, our forecasts are based on what is available to use to forecast. We are massaging the numbers the same way that people have done traditionally. I think you are very accurate when you question whether the historic data we have collected truly reflects what is really happening. That is something that is really, as I said earlier, a sea change. So there is the downside risk, the reliability of data. Our forecasts are as good as the data that are available on which to base them, as are all those other individuals' forecasts that we enumerated, and you see we are sort of in the pack. But the whole pack could be wrong. I would not dispute your observation at all.

The only positive light I can see is in the observations that foreign ambassadors have given me as recently as a meeting last evening with a group of Japanese investors, who really see Canada and Ontario as having great potential relative to their investment opportunities elsewhere in the world. Sometimes we are so close to our problems—and we do have problems—and we have become so absorbed in our problems that we forget that in relative terms we have a multitude of resources and benefits here in this province and in this country.

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Mr Poirier: I can understand the Japanese investors. If they are going to be willing—and they are investing massively, or trying to invest massively in eastern Europe and what is left of the Soviet Union and whatever, obviously they have a long-term confidence wherever their investments are. I am sure they say the same thing about Canada, whether it is together or not together. Whatever the heck Canada looks like two years down the road, they will still invest. I agree with you. But the other investments that are not Japanese, that do not have this confidence the Japanese have with their massive banking system and availability of capital, that do not worry about the Constitution, the composition of countries and alliances and whatever worldwide—not everybody is Japanese with a Japanese bank in his back pocket. That is what I am worried about.

Mr Davies: Perhaps it is more than just the Japanese bank. It is also that degree of confidence in the future. If you do not have confidence in the future, it becomes a self-fulfilling prophecy. Things do go wrong.

Mr Poirier: True.

Mrs Sullivan: I have a question that takes a very different tack. To a certain extent, this is the first pre-budget hearing for this committee. We have seen the Treasurer speculate that he wants to enter into a new approach to pre-budget hearings involving debates or dialogue around the table. When the MUSH sector or business or industry come to the table and are faced with a debate scenario in terms of pre-budget approach, it seems to me that they will react the way Bay Street is now reacting to the Treasurer's statement, and that is with laughter or with disdain.

I know I am putting you on the spot, but did the advice to the Treasurer come from Treasury, as to that being an appropriate way to conduct pre-budget hearings, or was it political advice?

Mr Christopherson: Wait a minute. Hang on.

Mr Davies: I am going to let the Treasurer speak for himself on what his plans are.

Mr Christopherson: Nice try.

Mr Davies: He has indicated in the House and elsewhere the approaches he would like to take. I will not answer your question because, as you know, it is privileged as to how ministers make up their minds. They make up their minds. I would only observe that it is in the general public interest that people have a full appreciation of different perspectives. When we are having to allocate scarce resources, it is very important that as many people appreciate the perspectives of others as possible.

Mr Phillips: I will go back to my question of before. I honestly cannot fathom how the economy can be performing better and the fiscal outlook is not better. If there is a lag, then this fiscal year is performing economically much better than you thought going in, so the lag should hit next year and the numbers should be better next year. CPI is way down and, yes, that may impact your retail sales income. But it must impact dramatically on the wage settlements that you had planned. The number of people in the workforce is substantially higher in both 1991 and 1992. Real growth is better in both years.

I have to believe that when the economic outlook is better the fiscal outlook has to improve. This is what I have been asking the Treasurer, as you know: "Why, with all the economic numbers better, don't you say, 'Listen, the fiscal numbers are going to be better.'" That is what is holding the economy back. One of the things is this four-year deficit. Surely with the economy performing better you should now be able to say, "Listen, the deficits are going to be better than we thought." I cannot understand that.

You do not have to clarify today, but there is a little subissue I wanted to ask. You say the wage protection fund is \$85 million less because of the delay in legislation. I am going to assume, therefore, that the number of applicants is the same; it is just that it will take you longer to process them. But I am more interested in the bigger issue, and you just confirmed that other one.

Mr Salerno: There are two things going on with the wage protection fund. Initially it was that the legislation was going to be delayed. Then the \$85 million that was being saved this year would have been transferred into

next year when the program was fully operational. It now appears from the early numbers we are getting that the cost might in fact be lower than earlier anticipated. Consequently, the \$85 million may not be a full add-on to next year's plan. It may be lower.

Mr Phillips: The thought entered my mind, but it says here in this document that it is due to the postponement.

Mr Salerno: Right.

Mr Phillips: So that is not the case?

Mr Salerno: As I said, the initial savings that were projected were because the legislation was delayed. However, as I just said, the costs now appear to be lower based on the applications that are on hand.

Mr Phillips: I am sorry. This was not my major question. Maybe outside here someone could tell me how much lower it is going to be.

Mr Sterling: I want to ask another question, a major one, but on the wage protection, since Mr Phillips has raised it. Have you negotiated with the federal government regarding the UIC clawback problem? Are you out of that problem yet?

Mr Davies: We would have to defer to those who are administering that program in another department and maybe get them in touch with you.

Mr Sterling: Okay, that is fine.

Mr Phillips: Could I get my question in, my major one, on why the fiscal outlook is not better if the economic outlook is better?

Mr Davies: If I am addressing your question properly, you are saying, "Why have we not seen improvement in this year's numbers right away?" I will give you a simple example. Wage settlements are for a term of a contract. Inflation might have come down in the course of the year, but the contract that was negotiated last year and is running the entire course of this calendar year does not get interrupted and adjusted.

Mr Phillips: But we should see that saving in the future.

Mr Davies: But it will be obviously an element to be considered in negotiating future contracts, contracts yet to be negotiated in the public sector.

The second point we have already addressed on the revenue side. Revenues are driven by nominal growth, not by real growth. If you are asking me to forecast what the government's expenditure budget plans are going to be for the future and whether or not, with lower wage demands because of lower inflation, any saving can be translated into a lower deficit, you are really asking a question that is part of the budget-making process that I am not in the position to answer yet because the government has not addressed itself to its overall expenditure plan.

Mr Phillips: You laid out your four-year plan based on the economy as you thought it was. Is the logical conclusion—

Mr Davies: But if you take a look at our economic projections from last year, we were projecting a significant moderation of inflation.

Mr Phillips: I know all the numbers, but I am saying if the economy is performing better, would the numbers be better over a four-year period?

Mr Davies: Which numbers?

Mr Phillips: Your fiscal numbers.

Mr Davies: It all depends on expenditure and revenue decisions made by governments of the day.

Mr Phillips: But if you take the ones that you have built into your four-year plan, if the economy is performing better, would not the fiscal plan be better?

Mr Davies: I believe I am correct in saying that Mr Laughren, on all occasions, has said that his target is on the deficit line and he has not focused on the combination of revenues and expenditures to get there.

Mr Phillips: But is it fair to say that if the economy performed better, our fiscal plan should perform better?

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Mr Davies: That is a decision of the government. I am serious, Mr Phillips; that is what governments decide, what sort of mix of revenues and expenditures they want.

The Acting Chair (Mr Wiseman): That is his answer. Mr Sterling?

Mr Sterling: Following along the same line, my concern is over the long term more than what appears to be here. I think what both Mr Phillips and I smell perhaps out of all this is that, in spite of an economy which has not been good but perhaps is a little better than we thought it was, we see the government reeling in terms of its own predictions and, particularly on the expenditure side, not being able to control them.

Mr Jamison: In your opinion, right?

Mr Sterling: Of course it is. My concern over the long term is the ability of this government and the successive government, whatever that should be, when we have had some sustained growth for a while, to be able to deal with the problem then. I do not want to reproduce what the Conservatives had to do in 1984 when they faced \$200 billion of total debt and had to face the people and say, "We are still facing a \$5-billion deficit or a \$6-billion deficit." Somebody has to turn that around somewhere along the line. You just cannot go on for ever, regardless of all the arguments of how much you can spend.

What is your long-term prediction? Taking these real growth figures of 3.7%, 3.5%, 3.4% in 1995, when can a government realistically look to having a chance at balancing the budget? I am much more optimistic about our outlook. We have a tremendous immigrant influx into our economy. They are really tremendous assets, if utilized properly. In spite of the government, I suggest that we are probably not going to do badly over the next four or five years. Given that, when can we see ourselves out of this mire?

Mr Davies: I really cannot answer that, because that is a decision the elected representatives have to take as to what their expenditure and revenue moves would be. If you were asking me, "When would it be if there was no change in any of the existing programs of government and no change in the existing tax base?" I think it would be

quite a few years, quite frankly, because the cost drivers underlying many expenditure programs far outstrip the natural growth in the revenue base. Health care, social services, even education continue to grow at a natural rate far exceeding the natural rate in growth in revenues. So something has to change.

Mr Sterling: Let's say the programs just stayed the same. What kind of increase in taxation would be necessary on an annual basis—5%, 10%, 15%?

Mr Davies: To be honest, I have never done that sort of calculation, because that is normally not the option a government chooses to take, leaving one side of the equation unchanged and moving just on the other.

Mr Sterling: Would that not be a good one to have in terms of being able to say to this government and future governments, "Look, if you leave everything the way it is, then you have got to increase taxation by 8% overall, or 28% overall"? Otherwise we go on and on and we delude ourselves in terms of how far we can go on the expenditure side. Is it possible to calculate that kind of thing?

Mr Davies: One can make the assumptions and do the calculation, yes.

Mr Sterling: Is it a lot of work to do that calculation?

Mr Davies: The critical work is making the assumptions of what happens. Once you sign on to the assumptions, the exercise is mechanical. It is not hard. What is hard is figuring out the assumptions to use.

Mr Sterling: You mean in terms of growth?

Mr Davies: In terms of growth and reaction of the economy to that growth. Again, it comes back to the point that Mr Poirier is making. We can do it on the basis of traditional and historic patterns and relationships. Whether those will turn out to be true in the future, I do not know.

Mr Poirier: I have my doubts.

The Acting Chair: One quick question, Mr Phillips, and then we will have to close, because it is almost 12.

Mr Phillips: What is really frustrating me is that in your budget you outline the medium-term fiscal outlook, the four-year plan. Under it you say, "These fiscal projections are based on the medium-term economic outlook described in budget paper B." I am not trying to put words in anybody's mouth, it is just that I read the budget and then I say, "Okay, the economic outlook is now changed; therefore, presumably these fiscal projections change." I cannot understand why we cannot get an answer to that.

Mr Davies: I heard over here, and I think it is a good answer, that the government will be indicating its fiscal plan for the year 1992-93 when it presents a budget.

Mr Phillips: But if your economic outlook changes, the fiscal outlook presumably improves. If it was based on a worse economic outlook, presumably with your new economic outlook, the numbers should be better.

Mr Davies: Presuming every other estimate was dead on and totally without change in that intervening period.

Mr Jamison: The projections you have given us today indicate that the government is sticking fairly closely to the \$9.7-billion figure for this fiscal year. It has come to

my attention—the preliminary word we are getting—that probably both at the federal end and with other provinces, their deficit figures are in a number of cases going to be substantially higher than were projected. I find that particularly interesting, although some of the figures have not actually come in, but all the vibes that are coming in indicate that the change we are seeing is not exclusive to Ontario, and it is not exclusive in the fact that revenues are falling because of the restructuring. It is going on in the permanent restructuring, and the job losses, loss of income from manufacturing.

I just wanted to point that out, that it will be very interesting to really have a look at not only what is happening at the federal level but also what is happening in other provinces as far as their projections on deficits are concerned, and especially other jurisdictions such as Quebec, when those figures come in. My preliminary understanding is that those provinces' deficits are going to be higher than had been projected. I think possibly the work that has been done by the Treasurer in trying to maintain the \$9.7-billion figure that was originally given should at least receive some credibility at this point, rather than having that rehashed and beat on again.

The Acting Chair: A quick last word, Mrs Sullivan.

Mrs Sullivan: I want to follow up on the point of Mr Phillips and Mr Sterling. There is a formula by which an increase in the GDP is factored to project revenues. I think the point that is being made is that with your projections of increases in GDP, slight or greater as they may be, with no other revenue moves, there is indeed a projection of revenue that, with no other expenditure moves, could lead to a Treasurer's decision to change deficit projections for next year or deficit decisions for next year. In fact formulas exist—they are standard practice in Treasury—and the Treasurer could, based on your projections, make decisions in the budget that would have an impact both on single-year deficits and ultimately on long-term debt. Do you concur with that?

Mr Davies: I certainly concur that treasurers and governments can make decisions on how they want the shape of the budget to be, yes.

Mrs Sullivan: But the formula is one that is standard practice in terms of predicting what your revenues are going to be. With projections already of a slight increase in economic performance, the final bottom line, it could be reasonably assumed, could be affected positively.

Mr Davies: I would have to look at the number again. I believe we are showing nominal growth next year lower

than we showed in the budget, and normally you apply that rule of thumb multiplier to nominal growth. So, if anything, it would be the other way.

Mrs Sullivan: It is still better than this year.

Mr Davies: Yes, year over year, revenue is growing. I do not think we were forecasting ever that we were going to have yet another decline next year in year-over-year revenue growth. It is difficult enough to face that in one year.

The Acting Chair: It is 12 o'clock.

Mr Sterling: I think this is important. It is a process question. Since we have the Deputy Treasurer with us, where should we as a committee concentrate our efforts over the next three, four or five weeks before we break at Christmas? I would like to have some feeling perhaps from you as to when we should be giving the Treasurer advice on what parts of the decision-making process that goes on, if that is in fact our role or our desire as a committee. Can you give us any guidance as to what people we should be listening to at this stage of the game?

The Acting Chair: I think Mr Christopherson probably has a better answer to that question.

Mr Christopherson: I would just like to throw something out, and then if you still want to direct a question to Mr Davies, please do, but I think I can help a little.

At the last meeting we agreed that we were going to start the pre-budget consultation for the MUSH and that we would do that as quickly as possible. I made it very clear at that time that if indeed we wanted to have an impact on that, we ought to move as quickly as possible so that it can be in the hands of the Treasurer as quickly as possible.

In terms of the other pre-budget consultations we will do, I am hoping that the Treasurer, either himself or through me, will be able to provide some sense of a time frame for the new year so that it is timely and it is meaningful.

That is a political overview from the Treasurer's office on those two issues. If Mr Davies can add something to that, please, I encourage him to do so.

Mr Davies: That is my understanding of the circumstance now.

Mr Sterling: Okay, thanks.

The Acting Chair: I would like to thank you for coming this morning and giving your presentation. The clerk has just indicated that he has all the significant MUSH group scheduled for November 21 and that this committee will be adjourned until 10 am, November 21.

The committee adjourned at 1204.

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Vice-Chair: Sutherland, Kimble (Oxford NDP)

Christopherson, David (Hamilton Centre NDP)

Jamison, Norm (Norfolk NDP)

Kwinter, Monte (Wilson Heights L)

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Substitutions:

Cooper, Mike (Kitchener-Wilmot NDP) for Mr Hansen

Poirier, Jean (Prescott and Russell L) for Mr Kwinter

Also taking part: Carr, Gary (Oakville South PC)

Clerk: Decker, Todd

Staff: Anderson, Anne, Research Officer, Legislative Research Service



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Le jeudi 21 novembre 1991

Standing committee on finance and economic affairs

Pre-budget consultations

Comité permanent des finances et des affaires économiques

Consultations prébudgétaires

Chair: Zanana Akande
Clerk: Todd Decker

Président : Zanana Akande
Greffier : Todd Decker

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LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday 21 November 1991

The committee met at 1014 in room 151.

PRE-BUDGET CONSULTATIONS

The Vice-Chair: We are going to proceed with the item on the agenda, beginning the pre-budget consultation process.

Mr Phillips: Mr Chair, just before we begin, it was just two weeks ago that we had the Treasury people in here with what turned out to be numbers that have changed radically. In fact, in hindsight, the presentation was very strange because it was only about four or five days later that there was a \$2-billion change in the numbers.

My comment is that I think we should have the Treasury people back again to give us the real numbers or today's numbers or the best numbers. The foundation on which we are trying to build now looks like it is about \$2 billion out. A subset of this that I would like to discuss when they come here is the fiscal stabilization plan, just to have a better understanding of the basis on which they will be applying for that and the rationale for expecting it, which I think is about \$585 million. Overall, I think we have to have the Treasury people back to do this.

The Vice-Chair: Before we recess for lunch, we will have a further discussion on that issue. Would that be acceptable? Then we can deal with it at that time.

Mr Sorbara: My understanding as well, given the demise of Mr Hansen as the previous Chair, was that we were first to elect a permanent Chair to the committee.

The Vice-Chair: I believe we are going to have that election this afternoon.

Mr Sorbara: Could we not proceed with it right now?

The Vice-Chair: Well, no. That is on the agenda for this afternoon.

Mr Phillips: You mean your votes are not here yet.

Mr Christopherson: Well, if you want to be frank about it.

The Vice-Chair: I would like to continue with the proceedings. This is a little different format than we have had in the past, in terms of having each individual group come forward and make its presentation. We thought we would have the groups come together to make presentations so that we can try to develop a bit of a consensus of opinion in terms of the different sectors. Please do not think this is meant to be a confrontational process; it is not. It is meant for us as the representatives, in preparing the report, to try to get a consensus on what the issues are.

We will give each group about 10 minutes to make its formal presentation and then we will divide up the time between the three parties for questioning. We will do that on an equal basis and I am sure we will have enough time for questions. Then we will proceed from there.

I guess the groups that are before us have decided the order in which they are going to go. For the purposes of Hansard, before you start your presentation I just ask each group to identify yourselves and the people who are here from your organization.

ONTARIO FEDERATION OF STUDENTS

FÉDÉRATION DES ÉTUDIANTES ET DES ÉTUDIANTS DE L'ONTARIO

The Vice-Chair: Welcome to the presenters. We are going to begin with the Ontario Federation of Students.

M. Lacroix : Bonjour, tout le monde. Je vous invite à vous servir de votre appareil de traduction, si vous voulez ; je vais faire ma présentation, la majorité du moins, en français.

Il me fait plaisir d'être ici aujourd'hui pour pouvoir présenter pour ce comité certaines positions que nous jugeons particulièrement importantes au niveau des étudiantes et étudiants de l'Ontario. C'est particulièrement important selon nous, étant donné la période dans laquelle on se trouve actuellement. On a une période où tout le monde nous dit que la fiscalité ou ce qui s'appelle revenu pour le gouvernement, est très bas et qu'il y a des répercussions sur tout le système éducatif et sur tous les autres services qui sont fournis par le gouvernement.

En commençant, j'aimerais attirer votre attention sur le fait que, bien que les collèges et les universités aient une responsabilité envers la société en général, la société a aussi cette responsabilité réciproque envers les collèges et les universités. Au cours de la brève présentation que je vais faire ici, c'est un des points qu'on va certainement retoucher.

Un autre point qui est important pour moi, c'est le fait que lorsque le gouvernement NPD a été élu, il nous a fait la promesse que l'éducation serait une de ses priorités. Jusqu'à maintenant, on a vu différentes façons qui traduisaient la priorité du NPD mais qui ne sont pas nécessairement ce à quoi on s'attendait.

1020

En tout cas, du moins les étudiantes et les étudiants de l'Ontario — je crois que les gens qui poussaient ce gouvernement-là s'attendaient à quelque chose d'autre. On s'attendait en fait à une réduction des cotisations étudiantes et, tel que proposé à l'intérieur du programme du parti, à une réduction ou à une abolition totale des frais d'éducation pour les étudiantes et étudiants de l'Ontario.

Ce n'est malheureusement pas le cas ; ce n'est pas ce qui s'est passé. On a vu, l'année dernière, une augmentation de 8% au niveau des frais pour les cotisations étudiantes, augmentation qui a touché directement la population étudiante. Moi, je viens particulièrement de l'Université d'Ottawa. On a vu plusieurs de nos confrères ou consœurs de classe qui cette année étaient incapables

de revenir à l'université à cause de ces augmentations-là. Ça a été le cas aussi à l'intérieur de certains collèges.

Ce qui vient aussi avec ça en particulier c'est la révision du programme de prêts et bourses de l'Ontario, OSAP, qui promettait d'avoir des changements au niveau de la façon dont l'éducation serait subventionnée, au niveau de l'accessibilité pour les étudiantes et étudiants de l'Ontario. Malheureusement, encore une fois, ça a été assez décevant parce qu'on n'a pas vu un moyen direct de faire en sorte que cette accessibilité soit plus présente pour tous les étudiants et étudiantes de l'Ontario.

On a dit aussi qu'il y aurait la possibilité que les bourses elles-mêmes soient délaissées, c'est-à-dire qu'on aille seulement sur une base de prêts aux étudiantes et étudiants. C'est particulièrement dangereux lorsqu'on prend en considération qu'environ 92% des étudiantes et étudiants de l'Ontario qui ont accès à OSAP ont accès aussi à une bourse. Je vais juste, si vous voulez, vous donner un nombre approximatif d'étudiantes et étudiants qui seraient particulièrement touchés s'il fallait que les bourses soient coupées.

Il s'agit d'environ 63 000 étudiantes et étudiants, à la lumière de nos estimations, qui se trouveraient à être coupés au niveau de l'éducation. Ce serait une barrière supplémentaire, encore une fois, au niveau de gens qui sont a priori marginalisés dans la société, c'est-à-dire ceux qui ont moins de revenus pour étudier. Encore une fois, ce serait une barrière supplémentaire qui les empêcherait davantage d'avoir accès à une éducation postsecondaire.

Comme je le disais plus tôt, les universités et les collèges ont une responsabilité envers la société et la société a cette responsabilité envers ces gens-là pour assurer qu'on a une éducation accessible, pour faire en sorte que tous les gens de toutes les classes sociales de notre population aient accès à cette éducation-là. Il est notre ferme conviction que c'est crucial pour le développement d'une société que toutes les couches de la société puissent avoir accès à l'éducation postsecondaire, autant au niveau du collège que des universités.

On a aussi avancé une méthode qui pourrait en quelque sorte diminuer le fardeau rattaché aux prêts et bourses. On a particulièrement étudié ce que ça coûte au gouvernement et aux étudiantes et étudiants de la province pour payer les prêts et les intérêts qui tournent autour de ça. On a détaillé cette exemple-là à la page 8 du présent document.

À l'intérieur de ça, on se rend compte par exemple que, pour quelqu'un qui aurait 10 000 \$ de prêts venant du gouvernement fédéral et 4 000 \$ venant du gouvernement provincial, cette personne se retrouverait avec, en quelque sorte, des intérêts payés qui seraient au-delà de la totalité du prêt.

Par conséquent, ce que nous on dit face à ça c'est que le gouvernement devrait probablement revoir la raison pour laquelle ce système-là avait été introduit à l'intérieur des banques ; c'est-à-dire que le taux d'intérêt était très minime au début des années 70, je crois bien, lorsque ça a été introduit, mais ce n'est plus le cas actuellement.

Par conséquent, possiblement le gouvernement devrait regarder à reprendre l'administration de ces prêts-là de telle sorte que les dépenses d'intérêt qui sont présentement payées carrément aux banques soient repayées au gouver-

nement et, en retour, que cet argent-là puisse servir à financer d'autres étudiantes ou d'autres étudiants à l'intérieur de notre province pour, encore une fois, augmenter l'accessibilité à l'éducation.

On a comme mission, au niveau de la Fédération des étudiantes et des étudiants de l'Ontario, de promouvoir une haute qualité d'éducation ainsi qu'une haute accessibilité. Pour nous, c'est une des façons de faire en sorte que cette accessibilité demeure présente et accessible pour tous les étudiants et étudiantes de cette province.

Un autre des points qu'on a entendus dernièrement c'est que les paiements de transferts risquent d'être historiquement très bas. Ça nous laisse avec un certain nombre d'options, évidemment: ou pour le gouvernement de mettre une priorité sur l'éducation pour, à l'intérieur des paiements de transferts, canaliser une partie importante de ces paiements-là vers l'éducation, ou encore de se retourner vers les étudiantes et étudiants et augmenter les frais de scolarité de ces gens-là.

Encore une fois, ce que nous disons, en tant qu'étudiantes et étudiants, c'est que ce serait une autre barrière supplémentaire, une autre façon de diminuer l'accessibilité aux gens qui sont, en partant, déjà marginalisés dans la société, c'est-à-dire, les gens des classes sociales à moyen et faible revenus.

Si on se retourne et qu'on refile la majorité de ce financement-là aux étudiantes et aux étudiants, il va y avoir de moins en moins de gens qui vont pouvoir y avoir accès, et les gens qui vont continuer d'y avoir accès vont être les gens qui pouvaient au départ se le payer, c'est-à-dire les gens des classes sociales plus élevées qui, comme je le disais plus tôt, ne sont pas nécessairement les gens qu'on veut viser à l'intérieur du développement d'une société, parce que ces gens-là sont déjà favorisés. Il s'agit d'aller chercher d'autres gens pour vraiment avoir une répartition complète dans la société de l'éducation de nos personnes.

Il y a aussi d'autres processus qui ont été avancés par certaines recherches, dont le plan de remboursement proportionnel aux revenus. Encore une fois, la Fédération soutient que ce plan de remboursement proportionnel aux revenus est une forme de repaiement qui est dangereuse vis-à-vis d'une éducation accessible à tous. Ce qu'on risque de faire avec ça c'est de se retrouver à un moment où, si les taux d'intérêt augmentent, on va payer seulement la partie de l'intérêt sans toucher au capital, ce qui aurait comme conséquence d'amener les gens à avoir un repaiement de leurs études sur une période pouvant s'étendre jusqu'à 30 ans. Ça, encore une fois, c'est très dangereux. C'est une autre barrière. Ça fait plusieurs fois que je reviens sur le mot «barrière».

C'est peut-être parce que c'est une chose qu'on sent particulièrement actuellement dans les universités. Quand on s'en va aux endroits pour l'inscription et qu'on voit de plus en plus de gens qui se plaignent des frais de scolarité, du montant où c'est rendu — comme ils le disent si bien : «Ceux qui sont là, c'est ceux qui ont la chance de revenir.» Comme je le mentionnais plus tôt, il y a plusieurs personnes qui n'ont pas eu la chance cette année de même revenir à l'université ou au collège en raison de l'augmentation, et ça c'est dangereux.

Donc, pour revenir au plan de remboursement proportionnel aux revenus, ce que nous proposons comme alternative au financement c'est non pas d'aller taxer les gens en fonction de ce qu'ils ont emprunté pendant leur scolarité, mais bien d'avoir un système d'imposition proportionnel aux revenus de telle sorte que, avec un système de taxe proportionnelle, les gens qui vont avoir gradué au niveau des collèges et universités et qui vont avoir un revenu supérieur pourront payer en fonction de leurs moyens et non pas en fonction de, hypothétiquement, ce qu'ils vont être capables de rembourser plus tard. Ce sont des points qui sont cruciaux pour les étudiantes et étudiants actuellement.

Je n'ai malheureusement pas fait attention au temps où j'ai commencé, mais je crois que ça fait déjà un bon cinq minutes que je parle. Pour terminer, je vous invite encore une fois à reprendre cette déclaration qui se trouve à la page 9, à l'intérieur de la section, Who pays the price, au deuxième paragraphe. Le gouvernement s'est engagé, avec une résolution au niveau des Nations Unies, à offrir le droit à l'éducation et à une éducation accessible à tous.

Vous avez une expression en anglais qui dit : «You have to put your money where your mouth is.» C'est probablement le temps de le faire. Si on croit à cette accessibilité à l'éducation, si on croit à une haute qualité d'éducation, il faut qu'on se prenne en main et qu'on fasse en sorte que ça en devienne une priorité. Ce n'est pas seulement le fardeau de quelques centaines de milliers d'étudiants qui est rattaché à ça ; c'est le fardeau d'une société complète. C'est le fardeau du développement d'une société qu'on veut meilleure dans les années à venir. Si on veut assurer que cette société-là devienne meilleure, ça passe nécessairement par une meilleure éducation et par une éducation qui est plus accessible. J'ai vu ce matin des gens qui portaient un chandail avec un message très éloquent où on dit : «Si vous croyez que l'éducation coûte cher, essayez l'ignorance.»

Ma crainte est que présentement c'est vers ça qu'on s'en va si on ne se reprend pas en main et si on n'assure pas que l'éducation va redevenir une priorité et que l'accessibilité de cette éducation-là va être donnée à toutes les couches de la société, peu importe la couleur de la personne, la race, la langue ou la religion, pour que tous les gens qui ont déjà à faire face à des barrières culturelles du moins n'aient pas en plus la barrière monétaire à vaincre. Merci.

1030

ONTARIO CONFEDERATION OF UNIVERSITY FACULTY ASSOCIATIONS

The Vice-Chair: We will move on to our next presentation, the Ontario Confederation of University Faculty Associations.

Dr Graham: I would like to thank the committee for inviting us here today and I would like to introduce the committee to people from OCUFA who are attending this meeting. With me is Marion Perrin, the executive director of OCUFA. Sitting in the audience are chief researcher Heather Webster and another one of our researchers, Veronica Horn.

OCUFA is pleased to have the opportunity to appear once again before the committee. This is our third presentation to this committee in under a year. It is a year which has seen no relief from the devastating recession which has plagued the economy and in which the government has seemingly turned aside from its plan to combat the recession by stimulating the economy and has become increasingly concerned with cost-cutting and deficit reduction.

In an attempt to hold the provincial deficit at what it believes to be acceptable levels, the government has cut funding already promised to the province's universities and is warning that operating grants will be held to "historically low" levels. It has been said that Ontario cannot afford to put more public money into higher education. It is just too costly.

The T-shirts the OCUFA people are wearing today read, "If you think education is expensive, try ignorance." We want to make this very evocative statement the focus of our remarks today. We want to stress one fundamental and very important point: We believe Ontario can afford to fund its universities adequately. What it cannot afford are the economic and social costs associated with an inadequately educated population. Universities must be adequately funded, not in spite of our desperate circumstances, but because of them.

What are the costs of the failure to invest in post-secondary education? Much has been said about global markets and international competitiveness and we will not dwell on the topic, except to state the obvious: Canada and Ontario are increasingly being drawn into world markets, and if we are to prosper in this environment, we must be competitive. One way of doing this is by lowering standards and attempting to undercut the competition, which is characteristic of the way things worked in the industrial age of the later 19th and early to mid-20th centuries. But it is not the way success is being achieved in post-industrial society, where competitiveness is dependent on high levels of productivity and innovation.

In our last appearance before this committee, we discussed the work of Harvard economist Robert B. Reich. Reich maintains it is the knowledge and skills of a nation's working people and the quality of its infrastructure which make it unique and uniquely attractive in the world economy. Nations which do not invest in education are doomed to a declining standard of living. They become trapped in a vicious cycle in which global investment can be lured only by low wages and low taxes. These enticements in turn make it more difficult to finance adequate education and infrastructure in the future.

On the other hand, "a workforce that is knowledgeable and skilled at doing complex things and which can easily transport the fruits of its labour into the global economy will entice money to it." As people's knowledge and skills increase and experience accumulates, "a nation's citizens add greater and greater value to the world economy, commanding ever higher compensation and improving their standard of living."

In its presentation to this committee last August the Ontario Secondary School Teachers' Federation made a similar argument. It quoted Jeff Faux, president of the

Economic Policy Institute in Washington, DC, who reaches the same conclusion as Reich. Faux writes:

"The new global economy requires a new economics for North America, one in which nations compete against each other not on the basis of cheap labour but on the basis of expensive labour, ie, labour which produces innovative products and services. A high-wage strategy involves a transformation of the organization of work from traditional 'top-down' management to management by teamwork. This in turn requires a new emphasis on a high-quality general education for all."

It has been said that education is the single most important determinant of economic growth in the developed world. The level of education and skills that will be required in the next century to achieve and to sustain economic prosperity is increasing steadily. It has been estimated that by the year 2000, 50% of all jobs will require at least 17 years of education and training. Furthermore, the knowledge and skills of the future will become outdated every five years, requiring continual education and retraining.

Ontario's universities cannot do the job they need to do in preparing the province's citizens for the global workplace in the absence of a sustained commitment to adequate funding. Failure to make such a commitment will result in declining prosperity for the province and for its citizens.

In addition to the economic cost associated with failure to provide adequate funding to the province's universities, there will also be undeniable social costs. Before this committee and in other forums, OCUFA has expressed profound agreement with the government's stated commitment to the achievement of equity in Ontario. We have observed that Ontario is rapidly becoming one of the most racially and ethnically diverse societies on earth. We have stressed that employment equity cannot be achieved without educational equity, that is, improved accessibility for those groups that have traditionally had low rates of participation in higher education.

In its November 1990 speech from the throne, the Ontario government spoke about a new vision for Ontario, one which provides for a decent quality of life for all of us, a society in which all Ontarians can achieve the best of which they are capable, have genuine access to education, culture, training and jobs and receive fair treatment from its institutions. The social implications of continued underfunding of higher education cannot be ignored and they cannot be tolerated. In the absence of adequate funding for the province's universities, accessibility will be severely compromised and the government's own equity goals seriously jeopardized.

OCUFA shares the vision of an Ontario where the gap between rich and poor grows smaller instead of larger, where people are no longer divided, rewarded or penalized on the basis of class, race or gender. Without a fairer distribution of the benefits which higher education confers, we cannot achieve these goals.

OCUFA believes that Ontario must maintain a strong system of public higher education for its own economic health and for the wellbeing of its citizens. We believe that

the tax system is still the best vehicle for funding public expenditures. We recognize that the tax system is badly in need of reform and we urge both levels of government to co-operate in finding equitable solutions, including a greater contribution by corporations, which are the major beneficiaries of the education and training carried out at post-secondary institutions. We note that the corporate share of the overall tax burden has declined in Canada, while the shares derived from personal income tax and consumption taxes have increased.

OCUFA does not believe that students should bear a greater cost burden. We oppose higher tuition fees and the introduction of income-contingent loan repayment plans. We do not have the time today to detail our policies with respect to these issues, but we have provided in the package before you some additional material for your consideration. We thank the committee for this opportunity to be part of the consultation process and we look forward to your report.

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COUNCIL OF ONTARIO UNIVERSITIES

The Vice-Chair: We will now move on to our next group, the Council of Ontario Universities.

Dr George: It is a pleasure for the Council of Ontario Universities to appear before the standing committee on finance and economic affairs today. My name is Peter George. I am president of the council. Accompanying me today are: Brian Segal, chairman of the council and president of the University of Guelph; Pat Adams, director of communications and public affairs; and Edward Des-Rosiers, director of research for the council. Dr Segal and I are going to share the council's presentation. I will lead off.

Members of the committee, Ontario universities have been experiencing underfunding for more than a decade. The current difficult recession is a continuation of the crisis for higher education in Ontario. This time, however, a system which has been trying desperately for years to make do has reached the end of its ability to withstand more cuts. Jobs are being lost and more will be cut. Student places at university are at risk. Social initiatives will be at best stalled and at worst devastated.

The advances made by women and minorities in establishing themselves in tenure track and contractual positions will be halted. As universities cut back, the last into the system will of necessity be the first out. Support staff positions, which are largely held by women, will be cut, and re-employment will be very difficult. Study programs that are not part of the core programs of the university will be sacrificed. In the short term the effects will be dramatic. In the long term they will put our higher educational system and the economic and social progress of our province in real jeopardy.

Why, despite repeated warnings, have our pleas gone unheard? Our university system has suffered the effects of underfunding more than any other major funding agencies of the government of Ontario. You will see, in the last chart of the brief we have given you, indexes of expenditures per clients served. The ones which have gone up very significantly since the late 1970s are hospitals, schools and

adult offenders. The ones which have declined significantly since the late 1970s are colleges and universities.

Yet unlike any other major transfer payment recipient, universities are part of the solution to what ails this province. Hospitals and agencies funded through the Ministry of Health and the Ministry of Community and Social Services treat symptoms of society's ills. Universities seek answers to the physical and social problems giving rise to these symptoms. Medical breakthroughs in cystic fibrosis, diabetes, AIDS, Alzheimer's disease and cancer research have been made recently at Ontario universities. Environmental research and the causes of aquatic pollution and the testing of salt-resistant durable road surfaces take place in Ontario universities. Social sciences research on such wide-ranging issues as demographic trends, cross-border shopping and community economic development among Ontario's first nations is studied at Ontario universities. Canada's most recent Nobel laureate is a faculty member at an Ontario university.

Consider too what universities mean to the provincial economy. Universities generate, both directly and indirectly, some \$6.2 billion of expenditures in the provincial economy, and more than 138,000 jobs are associated with university operations.

The dividends the university system pays in this province are real in both human and economic terms. Our ability to continue generating these dividends is sorely constrained by current levels of funding and funding arrangements—a long history of low provincial operating grants and strict regulation of tuition and other fees. Only through your action to resolve the underfunding of our universities can we contribute more fully to building a stronger, more competitive, more socially progressive Ontario.

I will now turn the microphone over to Dr Segal.

Dr Segal: Thank you. I want to correct the agenda spelling of my name for Hansard. There is an ongoing association between my university and birds and animals. We are proud of that.

If I could perhaps start with a human reality, the cohort of 18- to 24-year-old students has been shrinking demographically. Even with the new patterns of immigration, one of the things we know is that the age profile of immigrants coming to Ontario is identical to our own age profile, so the cohort is shrinking but the number of students applying to universities continues to increase.

One thing we as university administrators have learned is that if you ever want to understand the future, watch how high school kids behave. They have an uncanny ability to sense what is happening. We watched computer science enrolments drop and applications to computer science drop two years before jobs in the sector began to decrease. We saw the same thing with petroleum engineers and chemical engineers. Students sensed two to three years before the market actually collapsed in terms of employment opportunities that this was going to happen and found other locations and applications within universities.

If the students today are saying something to us, it is that they have determined that their future ability to be productive as Canadians and earn a decent wage is very much tied to their ability to get into and complete univer-

sity education. I think all of us, particularly adults, should take real notice of that, because what we say rhetorically, they are really telling us with their feet and with their own aspirations and goals. To them, universities are a ticket to the future and an opportunity to have options. I think the message we are getting from the students is that somehow we have to figure out a way of continuing to accommodate them.

In the last 11 years, Ontario universities have accepted an additional 60,000 students. That is a university equal to the University of Toronto plus an additional 10,000. There is no other sector in society that has been more productive by any measure. Even if one looks at the OCUFA data, which show some increases in faculty numbers in 1989-90 over some previous years, buried in those numbers, Mr Sorbara will know, are 550 positions that are linked to retirements. Part of the faculty renewal program will disappear as the retirements take place. Over the next two or three years, that number will shrink by about 550 positions or more.

We understand the dilemma governments find themselves in. We do not live in a sheltered world and we do not look at different data than you and governments do. We understand that there are real constraints on the ability of the public purse to finance everybody's aspirations. From our perspective when we take a look at obligations, we know we not only have wage obligations. These are collective agreements that have been voluntarily agreed to by the parties, and of course many of our institutions have two-year agreements. We are already looking at the cost of the second year of two-year agreements right across the system into next year. Those two-year agreements were based upon inflation and other cost-of-living factors that occurred three years ago and are tied to this year's year-over-year cost of living. I wish they were tied to next year's projected inflation, but that is not the way it works.

Ultimately institutions, if we are going to finance the wage settlements, if we are going to finance pay equity, if we are going to finance UI increases—just as an example, in-year UI increases from my university, taking the July 1 increase and the January 1 increase, is \$1.2 million—and if we add to that the claw-back the government put in place for this year for my institution and add back what is now likely to be, at most, half of what it promised us for pay equity, in-year we are looking at, for one institution, about \$2.6 million of things that we did not have available to us at the time we set our budgets. That means we are going into next year in a very difficult economic situation. We have collective agreements and additional in-year claw-backs or costs that have to be dealt with. One of the things we really do not want to do is take the government's deficit and simply put it into our deficit. There is no magic about that. We just cannot keep shifting the sands from one place to another.

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Once institutions go down the deficit financing route, it is very difficult to get back. I look at Concordia or McGill. These are institutions that started with small deficits. McGill's is about \$81 million and Concordia's is somewhere around \$46 million. You wake up in the morning and you are spending \$9 million a year in interest charges.

Those are of concern to us, and obviously to our governors, and begin to put some real constraints on our ability to operate effectively.

Any comparison of how we are funded, whether we are compared on a per-student basis against other provinces—we are ninth—or whether we are compared against public institutions in the US, the difference between us and those in border states across the country is about 55% lower funding per student in Ontario public institutions. If you take the California system, which is now reeling under its own pressures, it currently is getting 100% more dollars per student than the universities in Ontario.

We do not advocate this, but there has been an attempt to get equity within the university system in terms of wages and compensation between our various employee groups and various institutions. We are in the process of talking to our employee groups about two-year agreements and whether they would be willing to sit down and relook at those agreements, obviously voluntarily. There may be some sympathy, there may not. Ultimately, if the government really wants to get a handle on the wage bill, it is going to have to take a look—I do not say this with any sense of joy—at some legislated period of wage restraint which will allow all of us to operate on a level playing field.

From our perspective, if I can just reflect on the number, if we look at all the cuts that have been put in place, if we look at the collective agreements that have been agreed to, if we look at the pay equity costs and the continuing costs of employee health insurance and other things, we are looking at an increase of about 7% to stay where we were two years ago. From our perspective, if we cannot achieve 7%, then, in the document handed out to you, you begin to see some of the possible actions universities would have to take. The chart before you, "Implications of Alternative Funding Scenarios," indicates that there likely will have to be reductions in enrolment, faculty and staff in order to accommodate the commitments we already have.

Let me turn to the matter of tuition fees and start by saying that my colleagues around the table all share, I think, a common view: If we could find a way of avoiding tuition fee increases, we should do that. We share the common view that public funding of universities, as a matter of public policy, should come out of tax revenues and should not necessarily be borne simply by the users of that system. We have other universal systems where users do not bear anywhere near the cost of those systems, or any of the cost of those systems. That, from our perspective, is an ideal approach to the problem, but we are not living in an ideal world. Because we are not living in an ideal world, I think we have to contemplate an issue we have had difficulty contemplating in the past, and that is looking at the whole question of progressivity in tuition fees.

All of us in Canada believe in a social equity agenda, and one of the reasons we support a progressive tax system is that it is based on the notion that those who earn more pay more. It is not a new concept. We want a progressive tax system in this country. When it comes to tuition fees, we have a fairly regressive system. Whether you come from a family with an income of \$500,000 or an income of \$50,000, you pay the same tax to go to university.

Our view is that if we look at a substantially more progressive system with a massive redistribution mechanism attached to it, we can ensure that no one will be denied access to university education because of lack of income. Those who can afford to pay more will pay more. Those who can afford to send their children to private schools and look forward to a university education so they can reduce the amount of money they are spending on their kids' education can afford to pay more.

While it may be somewhat painful to look at it, from our point of view we have to be realistic. There are people who have substantially higher incomes and they can afford to pay more to send their children to university. Why do we not ask them to pay more? Why do we not take a good chunk of the extra they pay and redistribute that into a student aid system that really ensures without stigmatism and without the kind of negative aspects of selectivity that students who cannot afford to go to university are able to do so?

My last point is that I sincerely hope you can have some significant impact on the government discussions around financing. We recognize the difficulties this government and governments generally are in. We have asked the new government of Ontario since it came in for a multi-year plan. We know you have some problems today. We are here for the long haul. We want to sit down with the government. We want to take a look at a realistic approach to operating and capital funding over a three- to five-year period. If we know there is some light at the end of the tunnel we may be able to make decisions today that can ease the burden on all of us.

The Vice-Chair: You should not feel you have to apologize for a school that is associated with birds and animals.

Dr Segal: I am not apologizing, let me tell you.

The Vice-Chair: Particularly being from the dairy capital, there is nothing wrong with being associated with cows as well.

CONFEDERATION OF ONTARIO UNIVERSITY STAFF ASSOCIATIONS

The Vice-Chair: We will move on to our next presentation, the Confederation of Ontario University Staff Associations.

Mrs Johns: I want to thank you very much for including us in these discussions. This process is quite new to me. I do not have a written brief; I was not aware I should have one. My comments will not be terribly long today. I do want to support what my colleagues at the table have been saying. Our university system is in a lot of trouble these days because of the consistent underfunding we have been undergoing.

The situation at the moment is such that if there is not some assistance soon we could be seeing losses of up to one third of our university support staff. The impacts on staff have been incredible. Some of the universities have already gone through consultation reports and have started laying off staff members. Others are trying to work through a process of consultation and task forces internally

to try to decide where they could reasonably make some changes. These are very hard on staff.

Entire families in some instances are going to be unemployed. Library acquisitions keep declining. The students need the books in the library. The service is declining because there are just not enough people to help with all the procedures that need to be done. There is outdated equipment in the labs and it keeps breaking down. People are expected to try to fix this themselves because we cannot purchase new equipment. The secretarial and office staff are working for quite large numbers of faculty. Some of the universities have been considering early retirement and career change incentives, but this also presents a problem. As was mentioned earlier, re-employment is going to be very difficult, especially in these economic times, and there is no money for training and skills development. I keep wondering how low these cuts can continue to go.

The cutbacks that take place usually occur in a larger number at the staff level in universities. It is also curious that there has been some mention of the pay equity that is presenting a lot of problems to us, and now we have some new employment equity legislation possibly coming forward. Most of the jobs being reduced are jobs held by women. Therefore, I do not know how universities are going to be able to comply with some of this. It is going to be difficult. You cannot employ people when there are no jobs.

In closing, I would like to say how really concerned I am about the university's future here in Ontario.

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The Vice-Chair: I want to thank all of you for your presentations.

We will now move on to questions. I believe we have about 45 to 50 minutes altogether, so we will divide that up between the three parties. I remind members of the committee who are asking questions to please keep their questions brief. If you want to ask just one group or if you want to ask for comments from all groups, that is fine, but realizing that, keep your questions brief and preambles very short. I would ask those responding to questions to try to keep their responses as brief as possible. We will start with the official opposition.

M. Sorbara : Je vais commencer mes questions avec juste un mot de félicitation à tous les membres qui ont présenté quelque chose devant nous aujourd'hui, surtout à M. Lacroix, trésorier de la Fédération des étudiantes et des étudiants de l'Ontario. Il continue à présenter avec une force typique des étudiants, dont je me souviens très bien depuis l'année 1985, quand j'étais ministre, la force des étudiants sur les grandes questions de financement de nos institutions et aussi la responsabilité que les étudiants prennent vis-à-vis les grandes questions de l'avenir de nos institutions.

I have a couple of questions for President Segal, whom I knew as President Segal but of a different institution, at that time Ontario's only polytechnic institution, Ryerson Polytechnical here in Toronto.

First of all, Dr Segal, I want to get the political question out of the way. When we inherited government in 1985, there was the issue of underfunding, which was the

first thing that appeared on my desk as Minister of Colleges and Universities. I do not want to go back to what we call the bad old Tory days, but we had, for five and a half years, responsibility for setting public policy in the area of post-secondary education, as in all other areas. A new government was sworn in on October 1, 1990. Have you seen, during the first 15 months of this government, any major policy shifts, dramatic new initiatives in public policy from this government, as compared to the last? I am really not asking you to evaluate the two or to say one was better than the other, but from the perspective of the president of an institution and from the perspective of that institution, have we seen any major new policy thrusts thus far?

Dr Segal: I think you will recall that when you became minister there were some significant improvements associated with funding and new initiatives to the university system—whether it was the faculty renewal program, whether it was the multi-year financing of capital, whether it was to cease the war on whether we are underfunded or not—a kind of recognition by you and your government that we were underfunded and that the problem needed to be addressed. During the first number of years of your government's mandate we did see some rather refreshing views of the university system and some real action.

That initial burst of enthusiasm slowed down. Again, I am not trying to evaluate governments, because it is not my business to do that, but it did slow down and your successors were not as able, if you will, for whatever reasons, to continue with those initiatives.

When the new government came in, again, it picked up where you had left off in the sense of saying, "We know you have a serious underfunding problem." The minister indicated he accepted the notion of a \$400-million problem, so I think we were pleased we did not have to go back over the fight we had fought for many years in the early 1980s. In fact, the government's announcement for funding for this year, if one took everything it promised, was a positive message sent to the universities. There was no question about that. Disappointment has set in quite significantly since that time. In my 12 years as a university president I have never experienced an in-year cut where we were promised one thing and then it was taken away from us. We have had very significant in-year cuts and I do not know if it is over yet. I do not know the full ramifications and implications of the Treasurer's statement the other day in the House.

I think the sense of interest in the universities is there. The ability to deliver goes through these cyclical patterns. The intention of this government, I thought, was very clearly stated in the funding announcement for this year. Most of us, while always wishing additional funds to solve other problems, recognize it was a very strong statement on the part of the government. Since that time we have seen a clear shift. That is likely a response to the economic crisis the government finds itself in, but I am not here to defend any governments.

The final point I would make on the public policy side is that what appears to have started with your government, a process of broad-ranging consultation, also continued with the new government when it came in. However, there

have been a range of decisions made within this year that were not part of a consultative process. It appears to us that at least they want to consult on matters that are not terribly important to us and may become important to them, but they do not have a lot of interest at this stage in consulting on matters that are terribly important to us. I do not know if that puts things in perspective.

Mr Sorbara: I have one other question before we go to Mr Phillips. There are three areas I am particularly interested in at least for the university sector; we are not dealing with community colleges today.

First is the internationalization of our institutions. I believe the internationalization of the institutions represents our ability to be on the frontier of knowledge all around the world. Second is the interlinkages of our institutions within Ontario, that is; new models that make your faculty of engineering a component of engineering capacity in Ontario. Third is of course financing. This is going to be very much a probing question. It arises from what the treasurer of the Ontario Federation of Students said in his brief, and that is a question as to whether universities themselves—given their student application system, which I think is run out of Guelph, and the technologies available to them in computing—might have the capacity to actually take over the whole business of funding and banking and managing the student loan system in Ontario rather than having it shared between the government and the banks, not to the profit of the institutions themselves.

So the three areas are interlinkages, internationalization and funding a model that would have universities running basically a student bank.

Dr Segal: Let me try to address each of those quickly. There has been a dramatic transformation in international programming, in the internationalization of curriculum in many institutions. One of the problems universities constantly face is that people have a view of the university which stopped the day they left. There is a sense that nothing has changed. "I left 12 years ago," or 15 years ago or 20 years ago, "and that's what it was and that's what it is." There have been significant transformations.

My own university, as an example, has the internationalization of curriculum and the teaching of global issues as a part of the mission of the university. You know of the examples at York University and the University of Toronto. There are examples right through the province, not just of exchange programs and students studying abroad, but of an attempt to go into the curriculum and change it so that graduates get a much better understanding of what is happening internationally. There has been a dramatic increase in language programs, because that is another component of internationalization.

On the second question, two weeks ago the University of Guelph and the University of Waterloo opened two on-line, real-time electronic classrooms. If you are teaching at the University of Guelph, you will see on a big screen your class at the University of Waterloo and the students at the University of Waterloo can ask questions in real time. They put their hands up, they ask a question, you see them.

You write on the blackboard at Guelph, it comes out on the blackboard at Waterloo and vice versa.

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That was established because we have the Guelph-Waterloo graduate programs in physics and chemistry. They are joint programs. We have taken four strong departments in physics and chemistry and made them powerful. The Guelph joint PhD program in philosophy with McMaster is another example. I am using only those that are close to me and that I am aware of. The Carleton-Ottawa collaborative programs in engineering and in other areas, I think, are other examples of that happening.

There are many more discussions going on today among universities around collaborative programs. Another example is that six universities met at the Six Nations reserve this week with the elders to talk about how a consortium of universities in southwestern Ontario can, with the aboriginal peoples on the Six Nations reserve, offer clear transition and access programs to the university. Indeed, they can bring university programs there and do it on a collaborative basis. There is an awful lot more of that happening today than, for example, three or four or five years ago. Could you refresh my memory about the final question?

Mr Sorbara: The third point was the possibility of a university/student bank to take over the whole area of funding of students, from government, from OSAP and from the banks, which now profit very significantly from it.

Dr Segal: I think that is a very exciting thought, and it is not one we have thought about.

Mr Sorbara: Can I invite you to do it, then?

Dr Segal: Absolutely. I think it is a very interesting thought.

The Vice-Chair: I thought we had a request to rotate between the three parties, so I am willing to do that if it is still the preference.

Mr Phillips: How much time do we have left?

The Vice-Chair: You have about five minutes left for your caucus.

Mr Sorbara: Had I known you were going to rotate, sir, I would have let Mr Phillips go first.

The Vice-Chair: That is all right. Mr Sterling.

Mr Sterling: I am quite willing to let Mr Phillips go ahead.

The Vice-Chair: Okay.

Mr Phillips: A very quick question to Dr Graham. Next week, the government will announce its Ontario Training and Adjustment Board. Much of your brief is on retraining. I think a lot of the funds will head over there, though not necessarily out of the university. Has your organization been involved in that, and do you have a comment on it?

Dr Graham: We have not been directly involved in OTAB; not at all. We are seeking to have a voice in the Teacher Education Council of Ontario consultations. At the present time, as you know, TECO does not have faculty representation on it. We would like to ensure that the board

does have faculty representation. We also have had no voice in OTAB.

Mr Phillips: Well, in the end, I will be interested in your comments.

The Vice-Chair: Dr Graham, excuse my ignorance. What is the TECO program?

Dr Graham: It is the Teacher Education Council of Ontario, which is an arm's-length council that gives advice to the government on teacher education.

The Vice-Chair: Thank you.

Mr Phillips: In the end, I would like your comment on OTAB at some stage. I think it will be announced next week. As you know, it moves much of the training, retraining, workplace training, all those things, into kind of a crown corporation of some sort, with a budget of probably—I do not know—up to \$1 billion perhaps.

My other question is to Dr Segal. You mention in your brief that the 7% is a kind of absolute minimum. I have listened carefully and I have read the brief. Could you just give us some indication of how you arrive at that 7%? I know you are anticipating a CPI of 3.73%, but how do you arrive at that, and equally important, if that 7% does not happen, what happens?

Dr Segal: The basis for the 7% is in the note below, linking it to the CPI, pay equity costs and the flow-through costs of higher enrolment. Even though this year and the first year we took only 1% more students, there are still substantially more students in the system because of the flow-through of those numbers. There was a program put in place a number of years ago called the accessibility envelope, and there are flow-through dollars associated with that to cope with the additional enrolment, so that is part of the 7%.

I think the issue facing us is, if we do not get 7%, if there are no restraints on already agreed-upon salary agreements—salary costs are about 80% of the operating costs in universities, many of us have cut to the bone on utilities and energy and library books, and the deferred maintenance problem is incredibly serious—you are really down to two things. You are down to students and people: (1) constrain the number of students you take so that you can constrain the number of sessionals you hire and therefore lower your budget costs that way, and (2) look at other staffing costs and how you can reduce those costs. That ultimately means that in one way or another, individuals will be laid off. Each institution will have to look at how it goes about solving that particular problem.

Mr Phillips: If the increase is to be 5%, is there any indication of what the real impact of that might be?

Dr George: The scenario we present here is with a 5% increase. A 2% shortfall on basic need would be a linear combination of about 5,000 reductions in full-time equivalent enrolment, about 300 faculty positions lost and close to 400 staff positions lost. Individual institutions might trade off between the composition of those kinds of cuts, but this is an attempt to give you a scenario on a system-wide basis. These are factors that would be left in the end to individual institutions.

Mr Sterling: Perhaps I will pick up at the point where Mr Phillips left off, with regard to 80% of your costs being in the wage area. Inflation is probably going to be 2% to 3% this year, and maybe this coming year it will be in that area. You ask for 7%. Where are the other costs coming in? Are you practising any kind of wage restraint within the university area?

Dr Segal: Our problem is that there are 40 or 45 collective agreements within the university system. Many, though not all, of those agreements are two-year agreements. My view is that those coming up for negotiation next year will come a lot closer to what the CPI will be next year. Agreements that are in the second year of a two-year agreement usually bear some relationship to this year's year-over-year CPI, which is still running at well over 5%. So institutions are caught going back.

What we are trying to do is go back to our employees and say: "Look, the environment has changed dramatically. Yes, we have a two-year legal commitment. Can we sit down and reopen the discussions?" Each employee group will have to take its own cue as to what it decides to do, but ultimately if they say no, we do not have any leverage to use. That is why in my comments I said it may well be that the only way of actually dealing with that matter would be for wage restraint legislation to be brought in, and then it would affect everybody. I personally would be quite supportive of wage restraint legislation that would affect everybody for a period of time, to get all of us through this very difficult period.

I do not think the faculty or staff of our universities are insensitive to what is happening to pulp workers or to other workers who do not have jobs. On the other hand, if the parties sat down and voluntarily agreed to an agreement—it is not easy to change it; legally you cannot change it unless both parties voluntarily agree to do it. That is the bind we find ourselves in.

1120

Mr Sterling: If you took a graph—I do not know whether you would take it on the average salary of people working in the universities over the last six years—and you drew on the graph what the rate of inflation was versus the rate of increase in salary, where would you be now?

Dr Segal: We would probably be right there.

Mr Sterling: So you would not be much above the rate of inflation.

Dr Segal: No. As a matter of fact, the Council of Ontario Universities did a study two years ago, or had an independent study done by Hay Management, comparing faculty salaries to other salaries in the public sector and the private sector, because there has always been this view that we pay our faculty too much. The study was done independently; we did not control it, we simply paid for it. The study made the comparisons and Hay Management came out and said that in certain cases we are paid about right and in other cases we are below our counterparts, in particular below our counterparts in government.

Mr Sterling: I would like to switch the topic to tuition fees and talk a little bit about that. I noticed in section 4 of your council's brief that you showed the effect of the

operating grant being increased by anywhere from zero to 7% and how you would have to make up for that in tuition fees required from students if, in fact, you are allowed to increase tuition fees above the rate of grant increase. Is the position of the universities that this should be an overall policy, or a policy of the individual universities?

Dr Segal: There is no position of the universities on that matter. I believe the Council of Ontario Universities is of the view that, failing other sources of income, namely grant income, tuition fees should rise and there should be a formulaic way of allowing those tuition fees to rise. That may include providing discretion within floors and ceilings to individual institutions to make their own decisions about that.

There is also a group that believes in the total deregulation of tuition fees, allowing institutions to charge what they wish. I am not of that group. I believe if you decouple tuition fees from government policy, then you clearly open the door to the kinds of serious problems that my colleague from the Ontario Federation of Students spoke about this morning, and you take government off the hook, frankly. Then the only way you can survive is by bumping up tuition fees.

We did make a proposal on tuition fees to the current government that would essentially grandparent, if you will, all of the students in the system. It would increase the tuition for entering students, guarantee the entering students that they would stick with that tuition for four years, then treat the group behind them the same way, so that there was a sense of predictability. I think there are some avenues through which that can take place. The income-contingent repayment plan process, which is some distance away, is another way of deferring payment and then requesting that payment back on the basis of the level of income earned at the time.

If I can just summarize the position, (a) if we cannot get the amount of money we need from the government to operate, (b) we should be allowed to increase tuition fees, (c) there should be a ceiling on those tuition fees, and (d) there could be some discretions in the ceiling within individual institutions. Right now, by the way, the policy is that this is the maximum you can charge. You do not have to charge the maximum as an institution. You have that flexibility now.

Mr Sterling: In your brief, in addressing the tuition fee issue, you put down seven points which basically buttress the argument that perhaps there is room to increase tuition fees. But you also put in a very important proviso: as long as there is a safety net to catch those who are unable to sustain an increase or meet an increase in tuition fees.

I understand the government has been undertaking a review of OSAP and the whole tuition fee area. Where is the government on this issue? Is it now going through this consultation with all you people or is there any hope of a resolution to this? You cannot really deal with the tuition fee question in isolation from the other.

Dr Segal: My colleagues may have more up-to-date information on that. I think the reform of OSAP is a terribly important policy objective, but I do think you can top

up OSAP with university funds. For example, a program in which 25 cents or 30 cents of every additional dollar raised by tuition fees, within the limits prescribed, would legally have to be redistributed into a student aid fund within each institution, run jointly by the administration and the students that could never be used for any other purpose, that would roll over from year to year if it was not all spent and stay in that trust fund, is another way of ensuring that students are not denied access because of lack of funds.

There is a clear sentiment on our part that you cannot simply increase tuition fees and not have a significant proportion of redistribution for student aid. You can do that within the universities, though, and you can mandate that within the universities. You do not only have to do that through OSAP.

The Vice-Chair: Mr Sterling, did you want a comment from the other groups as to whether they have any more information?

Mr Sterling: Yes. I do not know if anybody else has any kind of information on the OSAP review study.

Dr Graham: Perhaps I could comment on that. I sit on the OSAP review committee, on the general body of that review. We have run into a particular problem this year with regard to the upcoming year's OSAP situation, the situation for 1992-93, simply because there is no money. It appears there will be some tinkering, I should say, with the OSAP system and we will be going on to a more thorough review of the OSAP system for the following years.

Certainly the Ontario Confederation of University Faculty Associations and the faculties of our universities believe that student assistance programs have to be improved, because at the present time students are asked to live on rates that are well below the rate of welfare. The levels of OSAP funding are well below where they should be for people to live in any sort of decent manner, and there has not been any change in the levels of funding since the program was begun. At the beginning of the program there was an attempt to make the funding of student assistance bear some relation to need: the prices students were paying for housing, food, transportation and so forth. Since then it has simply been a gross amount, and in the meantime costs for students have risen dramatically.

On the question of tuition fees, OCUFA does not share the views of the Council of Ontario Universities. We are here today of course not to quarrel at the table, because we are well aware of each other's position on this particular situation. We think there is probably some game at work so that if you raise tuition fees you are going to lower government grants.

OCUFA shares the policy statement by the New Democratic Party—not to be equated necessarily with the government—that there should be no tuition fees for students. In principle and philosophically we believe there is no sound, rational argument in favour of the existence of tuition fees, and other constituencies across the world have recognized that. Canada and the province of Ontario recognized that in signing the International Covenant on Economic, Social and Cultural Rights in 1976, which guarantees that Canada and its provinces will work towards the progressive

introduction of free education at the post-secondary level. We think this is an absolute necessity to keep in mind as a principle. We realize it is not possible and not practical at present or in the immediate future to dramatically reduce tuition fees, because of the economic situation in our country and across the world. We are, however, asking that tuition fees not be increased, because that will work against the very need of our society to educate people on a broad level, especially people who come from the less wealthy sectors.

Universities have traditionally educated people primarily from the upper-middle class and the wealthier classes in society. That is long gone. Our need for the future is to educate people on a much broader basis, to bring people in who were traditionally said to be working-class people. We have to end those kinds of class distinctions, to bring people in who have been disadvantaged and underadvantaged and who come from economically disadvantaged as well as culturally and educationally disadvantaged portions of our population. In order to do that, we have to make accessibility financial as well as social.

1130

The Vice-Chair: Dr Graham, I do not mean to cut you off, but I just wonder if Mr Lacroix would like to make a comment as well before we move on to the next question.

M. Lacroix : Oui, je reprenais certaines statistiques qu'on a sorties ici que je trouvais particulièrement importantes pour un sujet comme le financement des étudiants.

Si on recule aux années 1977 et 1978 environ on réalise que, à ce moment-là, il y avait environ 15% du budget d'opération qui provenait aux universités qui était financé par les étudiantes et les étudiants. Si on regarde ce qu'on a actuellement, c'est environ 20% du budget opérationnel, et si on fait une comparaison ou si on essaie d'établir un pourcentage d'augmentation pour une étudiante ou un étudiant, ça représente environ 150% d'augmentation par personne dans cet espace de temps.

Donc, si on continue à augmenter la part des étudiantes ou des étudiants pour financer nos universités, je pense qu'on ne prend pas la bonne voie. Il y a une voie, selon nous, qui est la bonne : celle de faire de l'éducation une priorité. Je regarde un graphique à la page 4 de notre document, où on voit que pour l'argent qui a été traditionnellement versé pour l'éducation dans les dernières années, comparativement au reste des dépenses gouvernementales, l'écart s'agrandit d'année en année. Il faut renverser ça.

Encore une fois, c'est une question de priorité. Vous demandez ce que les étudiants peuvent faire. Qu'est-ce que tout le monde peut faire ? Nous autres, on peut vous dire ce qu'on pense que vous devriez faire, mais c'est à vous que revient la responsabilité de faire en sorte que l'éducation soit une priorité qu'on renverse la vapeur à ce niveau-là et qu'on arrête de taxer les gens qui sont des étudiantes et des étudiants qui vont être le support pour l'évolution de cette société demain.

Mr Sterling: Mrs Cunningham, who is our critic, had to go to a House leaders' meeting and she apologizes for having to leave early. She is our critic in this area.

Ms Akande: I am interested in your references to equity employment and to subjects related to that in relation to the cuts or restrictions in funding. Certainly new initiatives do cost; there has to be a basic level of staff. Not everyone must go, not everyone can go. There has to be some natural attrition, some retirement, some transfer which has to be replaced. These are normal and natural occurrences in every college and every university.

I wonder, because you relate it to funding, and I do too, what moves are in place to ensure that those positions will be replaced from among the target groups in that equity employment and how, if that replacement seems difficult, it is made more difficult by lack of funding.

Dr Segal: Thank you for that question; it is a very important question to us. I guess the thrust of our brief simply is, and I can use my institution as an example, in the last three years we have replaced 110 faculty positions. We have done that with an employment equity policy in place. We have made some significant gains on the gender side, modest gains on the visible minority side and even more modest and, from our perspective, not terribly acceptable gains on the disabled side on those faculty rehiring.

We have done better on some of the staff rehiring in terms of all the designated groups. Each institution has in place an employment equity office, which is more than simply an office. In our case, there is a hiring and recruitment policy. There has been very clear attention to our targeted groups in order to improve the demographic basis of our own population, and we share those objectives with the people of the province and with the government.

The problem as we see it is—and again, because of what has happened, we use my university as an example—we have 35 vacant faculty positions. They are now frozen. They will not be replaced. We have a full-time-staff hiring freeze in place. It has now been in place for a year. It will continue. There will be no replacements. That is where it begins to hurt. That is where it slows the momentum in terms of employment equity.

One of the things that has been so important to us is not just establishing the policy but really getting people to buy into the policy and to feel a sense of ownership. Many people will understand—and again, I can only use my institution as an example—that when we first put the policy in, we got everything. We got, “Now you are prepared to undervalue quality; you are prepared to make tradeoffs,” all those issues. The experience over the last two years has been such that so many of the people in opposition have come to realize that when you cast a wider net, you get a lot more quality. There are now converts seeing that you can in fact make some real gains on the equity side and not only equal, but in many cases enhance, quality. I am worried that, as we cannot replace these positions at this stage, the rebalancing of our employee populations will be a lot more difficult to do and will be a lot slower. I guess that is the message here.

That should not necessarily have an impact on our student recruitment, because the same kinds of issues we are looking at for faculty and staff, we are looking at for students. We want to make sure our student populations reflect the demographic reality of our province. Again, one

of the things that has been very clear to us in my own institution is that as we raise our admission standards, we do not decrease the people coming from our target groups; we actually increase the numbers coming from our target groups.

Ms Akande: That does not surprise me.

1140

Dr Segal: No, but I am saying that we never thought we would decrease it. Obviously, one of our target groups is women. As the University of Guelph admission cutoffs have gone way up, over 66% of students entering the University of Guelph this past year are women. Within that category, although we do not collect data yet—we are going to start collecting it on a voluntary basis—the number of visible minority students has clearly increased significantly.

Those are issues that are important to us. We are not going to hide behind the petticoat of underfunding to remove our obligation to do something. In some areas, we are just going to have to do it a lot more slowly because we cannot replace people.

Dr Graham: Just briefly, three things; I am inviting the government here to look at this problem in a holistic manner. One of the things we have to do is to make sure we have an educational equity program in place in order to be able to provide people with the kinds of backgrounds that will enable them to come into our sector and take employment as university faculty. That means of course starting out with very early grade school and eliminating the barriers, breaking down the streaming, which automatically ensures that certain people from certain backgrounds are not going to be able to get to the stage where they might take up positions as university faculty members.

Second, we have asked the government repeatedly for a faculty growth fund because of the problem Dr Segal has outlined, that we have positions opening up across the province but that most of them are being frozen because of a lack of funding ability to fill them. We have also invited the government, and invite it now, to use a faculty growth fund in order to try to stimulate the positions for targeted groups.

Mr Christopherson: First of all, on behalf of the government members, I want to thank all the presenters today for taking the time to come. We really appreciate the effort you have obviously put into your presentations. All of it contributes to decision-making.

I have a couple of questions, the first one to Mr Lacroix. The presentation by the Council of Ontario Universities, on what I have counted out as page 5, suggests that under certain conditions, and I recognize that context, the council believes tuition fees should be looked at. They state a number of reasons for that.

I will just briefly touch on a couple. They have put forward that fee rates are lower now than they have been for 40 years, that the tuition fee revenue per full-time student at public universities in the United States was 76% greater than in Ontario and, over the page, in item 7 they talk about the fact that university graduates exceed the average industrial wage by 63% by virtue of the fact they have taken the time and effort to go through university.

I would just ask you, from your perspective on behalf of the students, how you would respond to some of those suggestions.

M. Lacroix : Je croyais ici que vous vous reportiez au rapport de la fédération ontarienne. Je vous demanderais juste de repréciser certaines des statistiques, s'il vous plaît. J'essayais d'écouter la traduction. Parfois, si vous parlez trop vite, la traduction ne va prendre qu'une certaine partie de votre discours. Donc, si vous pouvez modérer un petit peu, s'il vous plaît, juste pour reprendre les grandes lignes des questions, parce que je regardais un autre graphique.

Mr Christopherson: That is fine. I understand. I am having the same problems with some reception in mine too. I was referring to the Council of Ontario Universities' presentation. Do you have a copy in front of you?

Mr Lacroix: Yes.

Mr Christopherson: Good. I counted out page 5 with the chart in the middle. I was just referring to some of the items they list at the bottom of the page. I was referencing items 1, 3 and 7 just for examples of some of the stats the council was putting forward. I was just asking how you would respond to those notes from the perspective of the students.

Mr Lacroix : Je dois vous dire que je viens d'avoir le document, donc je n'ai pas eu le temps de repasser chacune de ces données-là. Si je reprends la première chose au niveau des frais d'étudiant, qui n'ont pas été gardés au même niveau que les frais d'inflation, comme je le disais tantôt, en rapport avec les statistiques que nous avons eues, ça s'avérerait être possiblement l'inverse puisque le taux que les étudiants ont payé en termes de cotisations étudiantes a augmenté au niveau de, ou à un niveau supérieur à, l'inflation.

Donc, par conséquent, comme je vous le dis encore une fois, je ne sais pas exactement d'où viennent toutes ces informations-là. Je m'en excuse si je ne réponds peut-être pas de la bonne façon à votre question.

Le troisième point : je crois qu'on se rapporte ici au taux américain par rapport au taux ontarien, au niveau des cotisations que les étudiants paient. Au niveau de l'Ontario, on paie plus cher qu'aux États-Unis ; c'est bien ça ?

Ms Bhat: Perhaps I could just interject here. We all realize that in the United States students are paying proportionately larger tuition fees than they are in Ontario. However, we must also recognize that accessibility is a great issue in the United States in terms of these institutions that are charging phenomenal tuition fees. This is why the federation has always come down very strongly against an increase in tuition fees.

We are paying relatively low fees compared to the United States, but we would like to think that in Ontario the post-secondary institutions are striving towards a better quality of education that is accessible to all students regardless of their socioeconomic backgrounds. These kinds of tuition fee increases are a direct barrier to students in the system. They exclude those people who are traditionally marginalized in society. Education is supposed to be opening the doors to these people and giving them the ability to

go forward in their career development. That will not happen unless they have access to post-secondary education.

Tuition fees have been increasing since the 1970s. Perhaps they are not at par with the level we were paying in the 1970s in terms of the proportion we are paying of the costs of running the system. Right now we are paying about 19% of the costs. I know that different sectors have been asking that students assume a greater proportion of the burden.

If we went with Dr Smith's recommendation to increase it to 25% of the costs of running the institutions, this would mean about a 40% to 50% increase in tuition fees for students. A student would come out with just an undergraduate degree, which we all know does not get you too far these days, and with a debt load of about \$50,000. That is a serious debt load to carry for the rest of your life and it will affect everything you do from then on.

If you are married and you come out as a couple finishing undergraduate degrees, you are looking at a \$100,000 debt load for yourselves. You still have to start thinking about your children and their education. You have to start thinking about your own future, getting some sort of mortgage on your home. That would be a serious impediment to doing these kinds of things. If you wanted to do any sort of graduate studies, your debt load would skyrocket from there. Then you have to start thinking how you are going to repay that.

Income contingency has come up during this conversation. I realize that people think income contingency is a great way to go about repaying this kind of debt load, but what happens is that as interest rates inflate, students stop paying the principal of their loan and just keep up with interest rates time after time. As they pay their 3%, they never touch the principal. They just keep paying the interest premium on the loan. It is not really a viable option, so the federation has always come down against an increase in tuition.

1150

The Vice-Chair: Mr Christopherson, unfortunately, we are out of time to ask any more questions.

Dr Segal: May I make one correction?

The Vice-Chair: No, I am sorry. All the time has been used up.

Mrs Sullivan: Since we did not have an opportunity to do so, I wanted on behalf of our caucus to thank all the representatives of the groups that have appeared and put forward extensive discussions of current and future issues facing us in the university community.

Mr Sorbara: Do we not go until noon?

The Vice-Chair: No, actually, because there is the one other item Mr Phillips brought up earlier that we have to have some discussion on. I would like to thank each of the groups for—

Mr Sterling: Mr Chairman, one of the participants wanted to make a correction. I think you should afford him that opportunity.

The Vice-Chair: Okay, sorry. Dr Segal?

Dr Segal: Thank you, Mr Sterling. This is not the forum to debate tuition fees. If the committee would like

the data behind our numbers, we will send it to the members. We will also send the US participation rates in public institutions, which are about 25% higher than in Canada.

The Vice-Chair: That will be fine, and if any groups have additional information that would support any of the data they have presented and want to submit it, they are more than welcome to do that. Again, thank you for coming forward. It has been a very informative morning for all of us to have you all here together. We thank you for participating in this process.

Mr Phillips, you brought up a point earlier that you wanted the committee to discuss.

Mr Phillips: Yes, the Treasury people were in here two weeks ago and laid out the fiscal scene for us. It has changed dramatically. I think we need an update on that because it is the foundation on which we are building our thinking.

The Vice-Chair: I just need a clarification, because they gave us a preview of the upcoming years and I believe the things that have changed are with respect to this year. Could you clarify what you are really asking for?

Mr Phillips: I think they actually reviewed the fiscal environment and the overview of major transfers. They went through the 1991-92 fiscal environment, highlighted and reviewed it, and then the fiscal outlook. Both of those things have changed, I gather, by a couple of billion dollars. I think we need an update. A subpart of that is that a big part of the package is the fiscal stabilization plan. I would like an opportunity to get an idea on what basis that is being applied for, because that is going to be a big part of the fiscal plan as well.

The Vice-Chair: Just one other question then: If the committee thought there would be merit in going ahead with your suggestion, when would you be looking for that to occur?

Mr Phillips: I would think two to three weeks, because it was regarded as the foundation we were going to build our thinking on.

The Vice-Chair: Mr Christopherson, you had comments to make?

Mr Christopherson: First of all, I do not have any problem if at any point we need to bring in the Treasury staff to give us the information we must have to do the work at hand. However, I am a little unclear at this point as to how things have changed in terms of what the Treasury staff came in for last time. As I participated, it was not a budget report. They were talking more about the economy and how that affected the planning for the upcoming budget. I think it is important that this committee, right now anyway, stay focused on the budget that is coming. That is what our work is, but I am certainly open to listening to other comments on this.

As I enunciated early on and I do so again, time is of the essence. I suggest respectfully that we do not want to take away from the time we can have groups coming in consulting with us so that we can get a report together and give it to the Treasurer in time for it to be meaningful. I would not want to see anything take us away from that

objective, because, as I understand it, that is what we are trying to do.

Mr Sterling: I do not disagree that there is a time problem here. My concern is the confusion over how much the last two announcements by the Treasurer are going to have on the planning for next year's budget.

I am unclear, quite frankly, as to the arguments about how much has been postponed or actually cut. That is my concern about it. They may not be able to clarify it any further, but it seems to me that for us to be able to try to make some kind of recommendations, we should have a clear view from them what their story is with regard to what has been transferred and what has not.

We have two groups coming in this afternoon. We are giving, what, a half hour to each?

The Vice-Chair: I expect we would probably spend a maximum of an hour in total with both groups: a 10-minute presentation and time for questioning.

Mr Sterling: If Mr Davies or some of his staff could be here this afternoon we would be quite willing to see them because that is the concern of Mr Phillips and me, if they were available for 4:30 or 5 o'clock.

The Vice-Chair: I doubt we are going to be able to get someone in here. I thought Mr Phillips said that maybe

we would be able to get someone here in a couple of weeks. That is what he was originally looking for. Now that the idea is on the table and we have heard some arguments, both pro and con, maybe we should take the lunch-hour to think about it and we can make a decision this afternoon.

Mr Sterling: Why do you not phone the Deputy Treasurer and ask him if he can come?

Mr Christopherson: Mr Chairman, I will undertake to see if Mr Davies is available on such short notice and, if not, when might we be able to schedule this, and I will get back to the opposition members this afternoon.

The Vice-Chair: Okay, and we will make a decision this afternoon.

Mr Christopherson: Is that fair?

Mr Sorbara: His office is close by, it is just across the road.

Mr Christopherson: Yes, I am familiar with where the office is, Mr Sorbara.

The Vice-Chair: We will make a decision, then, this afternoon. On that note we will recess the committee until 3:30 this afternoon.

The committee recessed at 1157.

AFTERNOON SITTING

The committee resumed at 1540.

ELECTION OF CHAIR

The Vice-Chair: Before we have our presenters come forward, we just have one piece of business to take care of, and that is the election of the Chair of the committee. I would like to have nominations.

Mr B. Ward moves Ms Akande as Chair.

Do we have a seconder for that? Mr Christopherson.
Do we have any other nominations for Chair?

Mr Phillips: What about Ron Hansen?

The Vice-Chair: He is not here today so I do not believe he can be nominated. Do we have any other nominations?

Mr Stockwell: You cannot nominate off the committee, that seems to be the interpretation. Could we nominate to find out if the member would like to stand? Could we do it that way?

The Vice-Chair: Mr Stockwell, Mr Hansen has resigned as Chair of the committee.

Mr Stockwell: I know, but I guess what I am trying to do is—

Mr Christopherson: Play games.

Mr Stockwell: Well, some would suggest I am playing games, like those across the room, but what I am trying to do is create the democratic process. Considering what I have read in the paper and the fact that Mr Hansen has said he has been forced off the committee and told to resign, maybe it would be the democratic thing if all members here, considering he did not want to resign, could show how worthy we think he was as a Chairman and offer that post back to him and show our confidence in him as Chairman. I think he was one of the best chairmen this committee has had and I would like to see him back in that job.

The Vice-Chair: Mr Stockwell, Mr Hansen has resigned as Chair and he has been substituted off the committee through a motion in the House which has already carried. We have one nomination forward. If you have any other nominations to make, please do so. Do I hear any other nominations? Seeing none, I declare nominations closed. I present to you your new Chair.

Motion agreed to.

ASSOCIATION OF MUNICIPALITIES OF ONTARIO
MUNICIPAL FINANCE OFFICERS ASSOCIATION
OF ONTARIO

The Chair: If the group will come to order, please, we have the third in the pre-budget consultations this afternoon and we are going to hear presentations from the Association of Municipalities of Ontario and the Municipal Finance Officers' Association of Ontario. Welcome. Thank you very much for coming. Each group will have about 20 to 25 minutes to make its presentation. After that there will be a question period and we will rotate the questions so that everyone has an opportunity. Please give us your names and explain exactly who you are.

Ms Cooper: Good afternoon. My name is Helen Cooper. I am currently the president of the Association of Municipalities of Ontario. I serve in that capacity because I am the mayor of the city of Kingston, hence actively involved in municipal politics in the province. I would like to thank the committee very much for allowing us the opportunity to make this presentation this afternoon. We will certainly respect time limitations. I will give a very brief overview of our document, taking me perhaps only 5 to 10 minutes, then I would welcome questions which I and my colleagues will attempt as best we can to answer.

First of all, we are certainly well aware, not just from various media reports but a variety of other indicators, that the provincial government is facing the most serious financial difficulties of many years. We would suggest, however, that it is equally important that the province recognize the economic difficulties currently being experienced by municipal governments as well, another level of government in this province.

As we know, it is very difficult for the province to cope with financial situations that are brought about by changes in federal government funding and federal government policies. It is at least as difficult for us at the municipal level to react to what may seem to us very frequently to be arbitrary decisions that have seriously affected our abilities locally to administer our own budgets and offer reasonable levels of increase in taxation to our citizens.

We at the municipal level, of course, have just gone through the experience of municipal elections across the province. Like many of my colleagues, I spent at least the last month and a half actively campaigning. I can say very clearly that our main source of revenue, which is property tax, is a tax that is totally indiscriminatory in recognizing people's ability to pay. That is becoming very obvious from its effect on many of our citizens. I think my municipality, being no exception, is looking at very significant budget increases in 1992. We estimate at this point about 25%, for instance, in Kingston. It definitely means we will be looking at certain staff reductions and so on to be able to offer a reasonable increase to our citizens.

We do want to be fiscally responsible. I would point out that having gone through the rigours of elections across the province, I think everybody elected in a municipal government is intending to keep the promises he or she has made. Certainly those promises revolve around what we would do about taxation. Therefore, what we are saying at this point is that if the province, in dealing with its financial problems, is going to continue to impose burdensome responsibilities on municipalities, we would ask that commensurate compensation go with those new responsibilities, which unfortunately has not been the case in many instances in the past few years.

To use some examples, the most obvious—and I am sure I am not telling this committee anything it does not already know very clearly—is that the effects of social assistance reform and the effects of the recession on the statistics are absolutely staggering in terms of the changes

in general welfare assistance expenditures. We are now looking in 1991 at GWA expenditures accounting for as much as 32.6% of a municipality's net revenues.

Again, I would point out that this is based on income raised through property tax. I do not think property tax was ever intended as a source of revenue for funding of social assistance programs. I would argue it does not make any sense. Very frequently, it is in essence taxing the poor to subsidize those who require income subsidy.

Another example is waste management and the nature of change of regulation, which has been at a breakneck pace, particularly in the last 18 months. The municipalities' financial ability to respond is increasingly more complicated and difficult. Many municipalities had accrued reserve funds, but considering the kinds of costs we are looking at now—the establishment of a new landfill or waste diversion program in the order of \$30 million, for instance, for a typical medium-sized municipality—there has never been any contemplation of establishing funds that would cover those kinds of costs.

Therefore, we are saying at this point that if there are to be regulatory changes, particularly in the area of waste management, they will have to be done in consideration of the fact that municipalities will have established their budgets early in 1992 and will not be able to respond appropriately without incurring serious operating deficits, which of course will then have to be made up in 1993.

1550

A further example we would like to point to is that of police services. Of course this is something that municipalities have argued for many years, and I am sure those of you who served in municipal government prior to being in the provincial legislature can well remember the frustrating arguments arising from the fact that the municipality has virtually no control over a police services board budget, and it can be independently arbitrated. It is extremely frustrating when a municipality is trying to determine, at this stage, in extremely difficult circumstances the priorities for service in the municipality.

The ability to include policing services among everything else is simply not possible under the current circumstances. We would therefore suggest that the province consider amending legislation which will at least allow municipalities control over police services budgets, which has never been the case previously.

We point out from our own survey results that the combined costs of welfare assistance and police services, both of which ultimately fall within provincial and not municipal control as the legislation is currently written, generally consumed in 1991 from one quarter to two thirds of the tax revenue raised by municipalities. That of course varies, depending particularly on which level of municipal government we are referring to. Much of the remaining portion of municipal budgets is devoted to staff salaries and benefits. The province, through the implementation of pay equity and an arbitration system, is also controlling at least some of those staff salaries and benefits as well. We would point too to an arbitration system that has consistently made awards in excess of inflation. I have been in municipal government since 1980, and it has been consistently the

case since then. Therefore, at this point, it makes it very difficult for us to be able to control costs.

We would like to suggest a number of recommendations. I will go through them very quickly, recognizing that I am almost at the end of my time.

1. We made our presentation to the provincial cabinet in September, and at that point we had proposed a formal provincial-municipal agreement on revenue-sharing to provide more predictability in terms of the kinds of long-term planning exercises that we all think are appropriate for very large municipal corporations to be undertaking. We would suggest that until such an agreement is in place, given the financial impact provincial policies have had and continue to have on our ability to control our own expenditures, we receive an across-the-board unconditional transfer payment at the rate of inflation, which we understand currently stands at 3.3%.

We also suggest it may be appropriate to unconditionally make other grants which have traditionally been conditional transfer payments to allow municipalities more room for breathing, because we must make a lot of very tough decisions in the coming financial year.

2. We suggest that funding levels of conditional grant transfer payments from the province to the municipalities should be adequate to allow municipalities to fulfil the stated objective of a given program, as very frequently the regulations attached to those programs are imposed solely by the provincial government.

3. We suggest that the Police Services Act be amended to give municipalities the authority to approve police service budgets. I will not go into that again.

4. We suggest that the province work with AMO to resolve the issue of cost-sharing for general welfare assistance as soon as possible. We are extremely appreciative of the opportunity to partake in the disentanglement process, which we think is the most important provincial-municipal initiative for many years. We would suggest, because of what we see on the immediate horizon, that the first phase in the disentanglement exercise is an examination of our relationships with respect to social assistance reform and the overall scheme of provincial-municipal financial reform.

5. In recognition that it may be some time before the full results of the disentanglement process are implemented, AMO recommends that all decisions which have an impact on municipalities or on our cost-sharing relationship be linked to the disentanglement process, and that cabinet submissions affecting municipalities include a statement of municipal financial impact.

That is a consistent request we have made for at least two or three years now. What has occurred in the past—and I am sure it was not ill intended, but it has occurred in any case—is that a ministry of the provincial government has made a legislative decision or recommendation not realizing that there may have been serious financial consequences for municipalities that may not have been immediately obvious. The immediate example that comes to mind is court security.

6. Where new legislation, regulations or programs result in an increased financial burden for municipalities, the

province should increase transfers sufficiently to meet those new costs.

7. The association requests that the province support the exploration of alternative sources of revenue and the establishment of a revenue-sharing act. My point bears repetition, that property tax is becoming more and more inappropriate to be funding the variety of activities we are expected to respond to. It is a very severe source of inequity to the people of this province.

8. When we are faced with the challenge of budgeting in the absence of knowledge of what the province is going to require, we ask that we be allowed to know our fate as quickly as possible, because most municipalities now fully recognize that the good old days are gone for ever and we cannot sit on a municipal budget for a third to a quarter of the way through the financial year. The budget has to be done as close to January 1 as possible to be absolutely reasonable and give appropriate direction to the administration of our municipalities.

That concludes my presentation.

The Chair: Thank you very much, Ms Cooper. We are going to ask that the Municipal Finance Officers' Association of Ontario make its presentation and after that we will have both groups come to the table and ask them some questions.

Mr Rinaldo: Thank you, Madam Chair. I want to express appreciation on behalf of the Municipal Finance Officers' Association of Ontario for giving us the opportunity to appear before you once again before you finalize your 1992 budget. I will be referring to the presentation that has been handed out to you. Our goal here is threefold: to provide you with an insight into municipal budgets and the financial pressures that we are in, as well as supporting the mayor's position in terms of this recommendation and addressing a couple of what we call the technical, clean-up issues such as debt legislation. And we would like to pursue new legislation and talk a bit about municipal pensions, if we may.

The Chair: Excuse me. May I ask your name, please?

Mr Rinaldo: I am sorry. I am Joe Rinaldo, chair of the Municipal Finance Officers' Association of Ontario. With me is Mike Trojan, and he is the vice-chair as well as the treasurer for the region of Niagara.

Perhaps I could start briefly on the pressures we are facing here. We all know the economic realities of the 1990s and that there are limited resources, not only for the municipalities but also for the province. We know you are struggling with your \$9.7-billion deficit and certainly we cannot expect major windfalls in terms of grants. But given this environment, what we feel has to happen is that we have to work in a partnership with the province to meet the demands and expectations of the public.

It would certainly be irresponsible to simply look at you to solve our problems, but I think the real problem is the cost of government services at all levels. To simply shift the burden from one level to another does not solve that particular problem. It is our opinion that shifting the burden to the property tax base is really shifting it to a more regressive and inferior method of taxation. All of us

should be responsible for our own taxing decisions, and that is the way responsible government should work.

Once again, we recognize that we have to work together to look at programs and service deliveries that have to be reviewed—they have to be rationalized—and perhaps even to look at ways to reduce the already onerous tax burden on Ontario residents.

I believe the Ontario economy and the taxpayers can no longer sustain the current level of public sector spending; therefore, the only way to resolve this is for us to work together.

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Just to pick up on the mayor's position, I wanted to highlight to what extent we have control of our own budgets. If you turn to page 2 of my submission, you will see there is a sample of a composition of property taxes for the region of Halton. I have used this simply for illustrative purposes. You will notice that two thirds of our expenditures are virtually controlled by someone else. Some 52% is for police services, and a number of the others are for boards and agencies such as the conservation authorities, the children's aid society, health services and general welfare assistance, which is controlled by the province.

The municipal councils really have direct control over one third of the expenditures, with the result that in many cases the property tax increase is well beyond the control of local councils. If you turn to page 3, I have given you an analysis of the municipal property taxes in Halton in 1991. You will notice that we had a 6.94% tax increase: 3.4% was for police services, 2.7% was for general welfare, and 0.8% was for services that council in fact had control over. So more than 90% of that particular budget, in fact, was controlled by someone else. That is the problem many of the municipalities in Ontario are facing.

We welcome the work towards disentanglement and we are certainly looking forward to working with you on that. We think that will achieve and promote sound, efficient government in delivery of services and improved accountability to the electorate.

Once again, the areas of immediate concern to municipalities are the areas of social services and police services board. We understand there has been a recent announcement in terms of conservation authorities and the reduction of their grants. One of the things we are concerned about is that conservation authorities will have the legislative authority to simply pass on that reduction in grant to local municipalities, which are constrained very significantly.

If I can go to page 4 and talk about transfer payments very briefly, I just want to remind the committee that municipalities cannot budget for any deficits. In fact, if we do have a deficit we must tax for that as a first item of taxation in the following year. Therefore, our flexibility is extremely limited.

I did a brief analysis in that little table on page 4 which shows you what will happen to most municipalities if unconditional grants are at certain levels. For example, if there is no increase in unconditional grants, most municipalities will expect a tax increase of 3% before they even start looking at their 1992 budget. That is the first thing that will happen. If you provide us an unconditional grant

increase of 3%, we would be looking in the area of 1% before we start looking at our budget. Only if you match our municipal expenditures will you actually have no impact whatsoever.

Again, because our general welfare assistance program, as well as our police services board, is increasing at a faster rate than inflation, we can expect that we will have some tax impact as a result of whatever announcement you make in terms of unconditional grants. We are having to face that at a time when the taxpayers are telling us that inflation, or something less than inflation, is the property tax increase they are looking for.

Therefore, MFOAO is urging you to take that into consideration in your final decision-making process in determining the level of funding that you will provide to local municipalities. Again, we are urging you to make the announcement to us as early as possible, since our municipal fiscal year is January 1 and most of us have already started our planning process for the 1992 budget.

In the area of pay equity and employment equity, MFOAO urges you to maintain a commitment so that the burden of introducing pay equity within cost-shared programs, such as social services and health, is shared equally and responsibly, especially since the legislation came from the province to begin with.

The area we would like to pursue in new legislation is borrowing and investments. As you know, municipalities have the authority to borrow, subject to the approval of the Ontario Municipal Board, and in fact do invest in some of the reserve funds. That legislation has not been updated since the 1960s and we would welcome an opportunity to have it updated. We have worked for three years on a committee with staff of the ministries of Municipal Affairs and Treasury and Economics, and with municipal officials, as well as the public sector, and we urge you to introduce that legislation as soon as possible.

The final issue I want to raise is the area of municipal pensions, the public sector pensions. As you know, most are controlled through the Ontario municipal employees retirement system and we feel it must retain the flexibility to invest in marketable securities at the discretion of professional pension fund managers in order to ensure the actuarial integrity of future pension benefits. If not, what in effect will happen is that actuarial liabilities will accrue over a period of time, which future residents of Ontario will ultimately have to pay. Let's keep our books clean, and if we want to subsidize any kinds of programs, we should do it up front and not pass the liability on to future ratepayers.

In conclusion, we welcome working with you on any review of any of our new programs. We want to re-emphasize that shifting the burden on to the property tax is really considered a more regressive form of taxation. It is certainly an inferior form. We want to thank you for giving us the opportunity to make our presentation today and we welcome working with you in the future on any issues that affect municipal finance.

Mr Stockwell: How much do you want in transfer payments?

Ms Cooper: We have suggested in our brief that it be unconditional transfer payments across the board at the rate of inflation.

Mr Stockwell: So you are looking for the rate at 3.3.

Ms Cooper: What we are saying is that we recognize you have a financial problem. We certainly have a financial problem. Recognizing the rate of inflation I think is sharing the burden equally.

Mr Stockwell: So if you get 3.3 unconditional, you are reasonably happy?

Ms Cooper: We would not be as unhappy as if we got less. Let's put it that way.

Mr Stockwell: Okay. Any of these recommendations you are requesting hinge on your transfer payments, so are you looking at 3.3 subject to a few of these recommendations being adopted? I was on council for eight years. This is the same stuff we talked about for those eight years. We have been talking about it for ever.

Ms Cooper: Those problems have never gone away. It is just that the provincial government, no matter which government it has been, has never addressed them.

Mr Stockwell: I think they have addressed them; they just do not agree with you.

If you are looking at 3.3 and you get less than 3.3, where would you look to your city, Kingston, to see reductions taking place in your municipal budget?

Ms Cooper: It is difficult for me. I am not a dictator in my own municipality. Two thirds of the council is brand new, so it would be kind of interesting to hear what they have to say about it. But I think probably the first things to go are municipal support of external agencies, which I think is a serious problem. I am talking about mostly social service agencies. I think reductions in certain kinds of programs are a requirement; to make certain programs self-sufficient that have not been self-sufficient before. Things like recreation programs will be far less accessible, particularly to those of very low income, than has previously been the case.

I think we would really be pushing things like fire services and police services. I do not want to sound alarmist, but part of the reason is that they are certainly the most expensive, and that relates back to my comments about arbitration settlements. We will be making decisions that councils would have shied away from a few years ago. I will presumably cut the grass less frequently. Some environmental groups might argue that is a good thing. Perhaps some changes that are effected are not necessarily bad changes. It certainly forces municipalities into thinking differently about the variety of services they offer.

At the risk of sounding like a heretic, one of the first recommendations I would make is to get rid of the blue box program. I have made my reasons for that very clear. I think the blue box program is totally unfair to municipalities. Municipalities are subsidizing primarily the soft drink industry by operating blue box and I think we should get out of it.

1610

Mr Stockwell: Those points are really well taken. In fact, I made some of those arguments a couple of years

ago at Metro council. It is kind of ironic, is it not, considering that we have a socialist government, that if you cannot get the 3.3% increase, you would be looking at social service grants, I assume, the universality of your recreation programs, fire, police and environmental programs like the blue box? I think that is rather ironic.

Mr Rinaldo: I can add one more service that our council seriously considered reducing last year but did not, the area of children's services. Council seriously considered reducing the number of subsidized child care spaces last year because of the pressures that were being encountered in last year's budget. We will be facing the same level of difficulty this year again. We are looking beyond double-digit tax increases.

Mr Stockwell: I have two very quick questions. What were the wage settlements for your employees this year?

Ms Cooper: They are 5% per cent in our case; 5% in 1992 and 5% in 1993.

Mr Stockwell: Did you get direction from the province about where you should be settling?

Ms Cooper: No.

Mr Stockwell: You did not? Have you read Agenda for People? You do not know that document?

Ms Cooper: No.

Mr Stockwell: I will send it to you.

Mr Phillips: Both your groups have a very good feel for how things are out there right now. Because I do not think either of these things is in your brief—I cannot pick them out—can you give us a sense of how the economy is going in terms of how it is impacting on your property tax revenues one way or another? Let me start with that one.

Mr Trojan: I will attempt to answer that one. The region of Niagara had the distinct honour of having the largest tax increase of all regions in Ontario last year and it was primarily due, as in many other regions, to economic conditions. Our increase was 12%; 6% of that was due to police spending and another 5% was due to the increase in welfare costs. Economic conditions are not the greatest and we are going to be faced with a similar situation in 1992.

In response to the situation we were faced with in 1991, our council chose to attempt to reduce our workforce by 5%, with a corresponding reduction in expenditures. We have just about achieved that, through a fair bit of blood and sweat. We have implemented an early retirement incentive program and we have eliminated any positions that were left vacant. We are trying to do it, to the greatest extent, through attrition rather than having to lay anybody off.

Having gone through all that and having nearly achieved it for 1991, we are faced with a budget in 1992, even when we take that into consideration, that is going to result in another double-digit tax increase because of a \$2-million deficit attributed to our share of the increase in welfare costs. Our welfare case load has increased by 100% over the last two years and that is adding to it. As far as the tax revenues are concerned, we have compared tax collection success in our area municipalities. There has been roughly a 25% increase in the amount of arrears outstanding.

Mr Rinaldo: One other area where we are seeing the impact of the economy is in water consumption, particularly in the commercial and industrial sector. In Halton a significant drop in consumption created a \$2-million shortfall in our water and sewer revenues, which are recovered completely from our water and sewer rights. We are feeling the effect of the economy, I can assure you of that.

Mr Phillips: Maybe I can add my second question, because they are related. Just in terms of social assistance payments, what is your anticipation for next year? I gather that is a significant part of it. I am trying to get a sense of the issues you are facing, whether the economic downturn has a significant impact on your revenues.

You know, unless you go bankrupt, you have to pay the property tax anyway. It is not like income tax, where if your income drops, you pay less. I am just wondering whether that has any effect on your revenue. Second, the costs across Ontario in terms of social assistance payments: Is there anticipation that we have now gone through the worst and the economy is starting to turn around?

Ms Cooper: I think it varies across the province. Our social services administrators expect another 50% increase in 1992.

Mr Phillips: Did you say 15%?

Ms Cooper: No, 50%. There are a whole bunch of people on UI now whom we have not seen yet.

Mr Phillips: I am sorry, did you say you expect a 50% increase next year in your expenditures?

Ms Cooper: In our total general welfare assistance bill.

Mr Rinaldo: I just want to emphasize that this is only our share. This is not your share; it is simply our share.

Mr Phillips: Is your share more than their share?

Mr Rinaldo: It is still 20%, but it is still a 50% increase on the tax levy that we have to tax for that additional amount, because we cannot budget for a deficit. For some municipalities, what happens is that they have a deficit because of GWA in 1991, they have to carry that deficit forward into 1992, and in addition to that, they have to increase their 1992 budget to offset the impact. That is why some municipalities are facing tax increases well above the double digit areas.

Mr Phillips: Is that typical of the AMO in terms of how it is anticipating the demand on social assistance in 1992?

Ms Cooper: I cannot answer that for sure, but I saw the statistics across the province. In our case, the city of Kingston, we were right in the middle for the last two years. I expect we are still probably somewhere in the middle; there will be some that are lower and some that are higher. But that is not atypical.

Mr Rinaldo: A sample of regional municipalities shows that it is in the area of 25% to 50%, all the regions, which is the majority of the population in Ontario.

Mr Phillips: You are anticipating, 1992 over 1991, a cost increase of 25% to 50%.

Mr Rinaldo: Absolutely, yes.

The Chair: We will move on to Mr Ward.

Mrs Sullivan: Could we ask that if the AMO has documentation on those projections from municipalities across Ontario, they could make it available to us? That has a significant impact on provincial figures as well.

Mr B. Ward: I would like to thank you for your respective presentations and the recommendations that are enclosed. I notice the AMO is suggesting that the transfer payments should be increased by the inflation rate, 3.3%. I think we all recognize that these are extremely tough times. Money is very tight for all levels of government.

It is my opinion that tax levels are about as high as they can go, so I really do not think we should be raising taxes more than they are right now. If you cannot raise taxes, and you are suggesting that transfer payments should be increased by 3.3%, are you suggesting to the Treasurer that he should allow the deficit to float higher than his objective of \$8.9 billion in order to achieve your 3.3% increase? Would that be what you are recommending?

Ms Cooper: The comment you make that we cannot raise taxes is an interesting one. If the provincial government determines that it cannot raise taxes and that it has to control the deficit at the \$9.7 billion level—and I fully recognize the reasons for that—

Mr B. Ward: That is \$8.9 billion for next year.

Ms Cooper: You have to recognize that if you give municipalities nowhere to go, taxes will go up. They will not be income taxes; they will be property taxes and user fees.

1620

Mr B. Ward: Your recommendation to the Treasurer would be—and this is AMO's position, I guess, because you are here representing AMO as well the finance officers' association—to allow that deficit to go higher?

Ms Cooper: That is the provincial government's decision, not mine. What I am trying to say to you, though, is that you cannot just unilaterally say taxes will not go up, because what you are compressing in one place is bursting somewhere else.

Mr B. Ward: The money has to come from someone.

Ms Cooper: If I may be so bold as to tell you what to do—

Mr B. Ward: You are here to give your point of view.

Ms Cooper: You have to decide which forms of taxation are appropriate to increase and which forms of taxation are not appropriate to increase.

Mr B. Ward: Are you suggesting that some taxes should be raised?

Ms Cooper: What I am suggesting is that if you give us nowhere to go, property taxes and user fees are going to have to go up. What I am further telling you is that those are extremely regressive forms of taxation that affect low income groups very severely.

Mrs Sullivan: On a point of order, Madam Chairman: The member is attempting to force a recommendation from the municipalities when their recommendation is for an increase in unconditional grants of 3.3%. The Association of Municipalities of Ontario has not made a formal recommendation, and clearly does not want to make a formal

recommendation, about what the Treasurer of Ontario's decision should be.

Mr B. Ward: Where it comes from—

Mrs Sullivan: The AMO has presented a recommendation based on its requirements.

The Chair: I appreciate your comments, Mrs Sullivan. I had interpreted the member's remarks as seeking clarification. However, I might add that the member asked a question and perhaps has the response. Is there any further clarification?

Ms Cooper: I will let the financial experts take over.

Mr Rinaldo: It feels like being in council meetings. Basically what you are trying to say to us is that you want to shift the burden from one level of government to another. The issue is, do we raise taxes or do we raise the deficit. That is the question you asked us. What we are saying is that it is time for us to review the level of services.

The people are telling us they do not want a tax increase, regardless of where it is coming from. This is what I hear all the time when I deal with the public. What we have to start doing is deciding who is responsible for determining the level of service that is provided in municipal services, and what we are trying to tell you is that you make that decision for us. You control the police budget. You control the general welfare assistance and the level of funding that you are going to dictate for us. If you want to make those decisions for us, you must absorb responsibility for taxation. If you want to give us the opportunity to make those decisions, then we will accept the responsibility for taxation. That is perhaps the way I can clearly say it.

Mr Stockwell: Hear, hear.

Mr Sutherland: I apologize for having to pop out and miss your question. First of all, congratulations, Mayor Cooper, on your re-election. I sat back and observed the municipal elections and tried to get as much analysis as I could on what occurred across the province in the elections. I was rather shocked on election night in some respects as to how many incumbents got back in. I guess the reason I was surprised was that I had been listening to all the reports beforehand, which indicated that there was a real shift out there among the electorate, that they wanted to have a real change in representation, particularly some groups such as property taxpayer coalitions.

My sense, other than a few what I would call exceptions down in my area in southern Ontario, is that in the vast majority of the cases incumbents were returned. I know that in certain parts of the province that was not the case. In the north, some of the mayors of the larger areas were not returned. In the few areas in my region where they were not, my sense was, though, that it was not the property tax issue that got those people turfed out.

I wonder whether you would care to comment on that. What message did the electorate really send in the municipal election relating to taxation, either at the local or the provincial level?

Ms Cooper: First of all, I would be extremely careful in the interpretation of election results. The obvious response I can give you is that the general calibre of incumbent

politician in the municipal government is extremely high, and that was recognized.

Interjections.

Ms Cooper: I will not pursue that any further. I cannot comment on the mood of the electorate in a variety of places. I can comment on the fact that tax revolt groups as such tend to be those who are able to voice their concerns because they have a certain amount of power to be able to do so. I would suggest to you that certain taxation changes that are occurring at the local level are affecting most strongly those who are most severely disfranchised to begin with, and that they are not the ones who are likely to be leading some highly developed and well-publicized tax revolt.

I can say from my own personal experience that there is plenty of evidence of hardship. I can tell you that in the part of our city where there was a lot of recent development for first-time home buyers, there are more for-sale signs on one street than there are houses not for sale, and most of those are defaulted mortgages. I therefore suggest to you that there is a taxation problem.

I found an electorate that was I think quite sympathetic to incumbents, recognizing that a number of problems we have had to deal with in the last while have been the results of certain changes we could perhaps not have forecast very well and have tried to respond to as best we could. But I do not think we should diminish the seriousness of the problem of the inability of certain people in our society to continue to pay.

The other point I would like to make too is that we mentioned waste management particularly. I think the shock value to the economy in the way the province is dealing with municipalities on waste management is extremely deleterious to our economies. I would suggest it is also creating a number of much-unwanted side effects, including allowing certain private sector corporations virtual monopolies in control over municipal destiny in these areas, and I would suggest that these things should be looked at very carefully. I recognize that there is a great need for change in environmental regulation, but I think it should be dealt with much more sensitively than has been the case in the last few months.

Mr Sutherland: You mentioned that if transfers did not meet the need, then there was the issue of user fees. You talked about those people who were disfranchised who were already feeling the impacts. If you see user fees coming in on certain things, are you referring to some of the—while still important—more optional types of things, such as recreational facilities? Is that where you are seeing it, or are you seeing it in more main core resources?

Ms Cooper: Those will be the first things to go. Obviously we will look at those services which are not life-threatening before we look at the ones that are. Therefore, the original intent of municipalities to provide certain kinds of services that people could not afford in terms of provision by the private sector, that is, a municipal pool as opposed to a private health club pool, those kinds of things will probably have to become much more self-sufficient, which defeats the purpose of having them in the first place. But that is definitely the first kind of thing that is going to go.

Mr Wiseman: I would like to pursue these questions. I know that in my municipality the province gives grants for transportation that are outside the regular transfer grants. I assume that is probably the same for just about everybody. Do you have any idea what percentage that is and what the impact would be of these outside grants? You talk about 3.3%, but if you get your 3.3% and you do not get anything else, do you have an idea of the impact?

1630

Mr Rinaldo: For programs like health and social services they would have a dramatic effect because those programs are primarily funded from the province. In other words, public health services are 75% funded by the province and 25% by the municipal sector. Most social services are funded in the area of 70% to 80% by the province and 20% to 25% by the municipality, so if you start cutting those back, our ability to provide those services would be completely hampered.

In terms of our road program, it depends on the size of the municipality. It is very diverse. It does in fact dictate the level of road improvements that will happen over the next year or two for various municipalities. They have not been keeping pace with inflation, and most municipalities have been cutting back the road programs.

Mr Wiseman: The disentanglement process: If you are talking about general welfare, we know where AMO stands on that. Outside of that, where would you say the most cost-efficient steps for disentanglement could take place?

Ms Cooper: Outside of welfare? We have listed what we think are the three most pressing areas, certainly the highest-cost areas—waste management and police services—and there is a high degree of entanglement in both those cases.

In terms of waste management, the Minister of the Environment is certainly in control of the process now, and I think many of us who are engaged in waste management master plans would argue that we are seeing huge amounts of money being spent unnecessarily at the moment. AMO has some extremely well-prepared briefs on those issues which we would be happy to send along to you.

Mr Wiseman: How many municipalities are currently looking for landfill sites?

Ms Cooper: Every municipality in the province, because the time it takes to get a new landfill exceeds the lifetime of any landfill site in the province now, I would guess, bar a few exceptions.

Mr Wiseman: Have you examined the Interim Waste Authority's document on site selection, the search for landfill sites that the Interim Waste Authority for the GTA has put together?

Ms Cooper: I personally have not. I would have to defer to the policy analysts at AMO.

Mr Wiseman: Because if that—

The Chair: Excuse me. I think time is running short and I am going to ask that you place your questions concisely. We will let you round that up and then we will move on to Mrs Sullivan.

Mr Wiseman: What is the average tipping fee that is being paid throughout the area outside the GTA?

Ms Cooper: Ours is \$140. Peterborough is \$150 now. I think those are probably fairly typical rates.

Mrs Sullivan: I have two questions, one of them relating to environmental issues. I know that Mayor Cooper has been very active in these areas over the past lengthy period of time and clearly has some concerns with respect to the regulations which will be introduced during the course of this year. Has there been an impact figure put on the cost to municipalities in Ontario relating to the leaf and yard composting and the source separation?

Ms Cooper: I cannot answer that question. Do we—we do not.

Mr Rinaldo: Not in Ontario. We do know that as municipalities are going in there, it is a very large component of our waste management budget in Halton, I do know that, and it is growing at a much faster rate than even our cost of landfilling. In Halton we are currently exporting all of our wastes in our recycling—our waste reduction program actually costs us more, despite the fact that we are hauling it all the way down to Niagara and in some cases to the United States, so that is the level of expenditure.

Mrs Sullivan: That is typical of many communities. By the way, if AMO does that kind of survey of the impact of those regulations on municipal costs, I think that would also be useful.

I wanted to ask Mr Rinaldo particularly about the interest of the finance officers' association in municipal pensions. The recommendation suggests that, "MFOAO urges the government to resist using public pension funds and that any government borrowing be made at prevailing interest rates," and so on. Are you suggesting that the province ought not to adopt a kind of Caisse de dépôt approach to investment for public sector pension funds? Is that what you mean by that statement?

Mr Rinaldo: Absolutely. I feel that in fact pension funds are funds of the employees and they should be managed in the most professional manner and get the highest rate of return so that we do not have problems similar to what we had in the 1970s. I recall when we managed pension funds in the 1970s. At that time I was with the region of Hamilton-Wentworth and we had a private pension plan. In fact there were major deficits which were accrued over that time in the city and the town, and the city and the region had to put additional moneys in there.

What you are doing simply is deferring the liability to future ratepayers, the future residents of Ontario, if in fact you create the shortfalls, because the benefits will ultimately be paid. If you are going to give a benefit today, the existing employees should pay for it today and not pass it on to future ratepayers. For goodness' sake, we are passing on huge deficits both at the federal and provincial levels in terms of passing on future liabilities to our future residents. Do we want to add one more to the list? That is the bottom line.

The Chair: I have Mr Phillips, and I have, tentatively, Mr Wessinger; I am not sure whether you were indicating that you wished to speak. But after that I am cutting the questions off.

Mr Phillips: Just a comment. That is an interesting discussion that took place, and it will take place some time down the road.

Mr Rinaldo: It sure will.

Mr Phillips: I gather the Treasurer even today was saying he is going to be coming forward with some form of a pool of capital for investment, and I am pleased to have your preliminary comments on it. The comment I would make is that the Treasurer I think is committed to the grant announcement for municipalities by the end of this calendar year. I think he said you will know by Christmas the bulk of your concerns, and then the budget of course may have some additional things in it that will be of interest.

Your recommendation for the grants, recommendation 1, is the 3.3% on the unconditional grants. On the conditional grants, I gather it is status quo, and if anything new comes in, adequate funding.

On the Police Services Act, that may be something that cannot happen right away, but I think we all understand your recommendation there.

On recommendation 4, again, I think social assistance, substantial review and disentanglement are going to take a little bit of time, but for this budget, are you satisfied with the cost-sharing arrangements between the provincial government and municipalities?

Ms Cooper: I do not think "satisfied" is the word I would use. Certainly it has been AMO policy for a number of years that social assistance funding should not be related to the municipal tax base at all, and I think for very logical reasons, but I think we are realists.

Mr Phillips: That is essentially an 80-20—

Ms Cooper: It is an 80-20 split. There are only two provinces in Canada that have municipal cost-sharing, by the way.

Mr Rinaldo: There is one area we would like to get an improvement or a clarification, and that is where we have had to implement pay equity. As you know, employment in health and social services programs is predominantly female-oriented in our municipalities, and that is where the biggest cost of pay equity has in fact affected us. We are having difficulty getting the fair cost-sharing ratio, based on the province's formulas, in terms of you picking up your fair share of pay equity cost. We would urge the province to help us in that area. We are not asking you to pick up our share; we are simply asking you to pick up your fair share of it.

Mr Phillips: That was in the social assistance area?

Mr Rinaldo: Yes.

Mr Phillips: Okay. Recommendation 5 is something that is important. Recommendation 6, I understand that; and recommendation 7. As I say, I think with the announcement on recommendation 8 there is a commitment to bring it out this year by the end of the calendar year. At least I think I understand completely your recommendations. I, for one, appreciate very much the clarity of them.

Ms Cooper: If I could just add another bit about pay equity, which is a very important point, in homes for the aged as well municipal budgets have gone up very dramatically

in the last few years. We had to cover 100% of the retroactive costs of pay equity, whereas homes for the aged are usually roughly an 80-20 split as well. So municipalities in the whole pay equity scheme have had to pay 100% of the catch-up costs, whereas those salaries and wages are an 80-20 split otherwise. I do not think it makes sense.

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Mr Wessenger: This may have been asked before as I was late, but I would like to clarify it for myself. You are asking for grants of 3.3%. If grants at that level are made, does that translate to a municipal tax increase at about the same rate of 3.3% or 4.3%? Are there any predictions in that area?

Mr Rinaldo: I would be more than happy to predict. Even if you give us 3.3%, given the pressures we have in our social services program and some of the boards and agencies such as police services, we will expect that will lever up our tax increase by 1% or 2% even before we start our 1992 budget.

Mr Wessenger: That would work out overall to about what?

Mr Rinaldo: We are going to be well above inflation in that area.

Mr Wessenger: Even with a 3.3% tax hike in transfer payments you are still looking at tax increases in the 5% to 6% range?

Mr Rinaldo: No, 5% to 15% is probably more like it.

The Chair: I want to thank both the Association of Municipalities of Ontario and the Municipal Finance Officers' Association of Ontario for your presentations, for responding to the questions and for the clarity with which you have done that. I appreciate your coming.

Mr Rinaldo: Thank you for the opportunity to be here.

The Chair: There is a second item on the agenda which in fact has been carried over from this morning. I would ask David Christopherson to report on that.

Mr Christopherson: I had some discussion with the Treasurer's staff over the lunch period. There is certainly no problem with coming in if that is what this committee would like, but we are recommending we follow Mr Phillips's suggestion that indeed a couple of weeks would ensure we have used our time most effectively here in doing the consultations. If we would like to set a date now for two or three meetings down the road I will relay that back to the Treasurer's staff and we will have the right officials here to present the information. I would also like to get a sense of exactly what it is the committee would like so that whatever limited time we have is focused on the issues the committee would like.

The Chair: We have the afternoon of December 5 available. Would it be helpful to use that time then or would you perhaps want another day?

Mr Phillips: I am free that month.

The Chair: Maybe December 12 would be better.

Mr Christopherson: The only thing I worry about is something I have said before and the Treasurer has now

said publicly: he is anxious to get these announcements made as quickly as possible. I again emphasize the importance of concluding our work so that we can get the report in his hands and it will have a meaningful impact.

Mr Sutherland: Is that December 5?

The Chair: The afternoon of December 5.

Mr Christopherson: Are we scheduled to conclude then?

The Chair: Yes.

Mr Christopherson: That would make sense. At what time specifically in the afternoon?

Mr Wiseman: At 3:30?

Mr Christopherson: We will work that out with the clerk. We are finished the consultation by the morning of December 5, Mr Decker?

Clerk of the Committee: Yes.

Mr Christopherson: Fine. I will arrange with the Treasurer's office for the afternoon of December 5 at 3:30. Could I hear the focus, please?

Mr Phillips: For me it would be not unlike what they did two weeks ago with whatever numbers were current then. I think they reviewed where they thought we were going to come out this fiscal year and they again reviewed their projection. What we are trying to do is get a sense of what fiscal environment we are going to be working in. I do not think any of the economic environment is likely to change. A huge part of our makeup is the \$585 million on the fiscal stabilization plan. I would like to know the basis on which that will be secured from the federal government.

The Chair: My understanding—you can correct me, Mr Phillips—is that you want an update of the figures and you want a review of the areas from which the focus of the budget, the budget reductions or the cuts will be coming.

Mr Phillips: I personally am most interested in an update of the fiscal outlook, and a subset of that is the fiscal stabilization plan, the basis on which we will be securing that money from the federal government.

Mrs Sullivan: I would also like, having heard the AMO presentation today, to see some projections from Treasury relating to the effect of increases in the general welfare transfers to the municipalities. In terms of those transfers \$3 billion is now spent. If the municipalities are predicting increases of 25% to 50% in their case load and the province pays 80% of that, what kind of figures are we looking at in terms of that impact?

Mr Christopherson: Is that the impact on us or the impact on our partners?

Mrs Sullivan: The provincial impact.

Mr Christopherson: That is fine. I will do everything I can to make sure the presentations are focused in those areas.

The Chair: That being completed, I think we have completed our business.

The committee adjourned at 1646.

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finance and economic affairs**

Pre-budget consultations

Assemblée législative de l'Ontario

Première session, 35^e législature

Journal des débats (Hansard)

Le jeudi 28 novembre 1991

**Comité permanent des finances
et des affaires économiques**

Consultations prébudgétaires



Chair: Zanana Akande
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LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday 28 November 1991

The committee met at 1017 in committee room 1.

PRE-BUDGET CONSULTATIONS

The Chair: Mr Sterling is on his way and will be with us in just a moment. This morning we are going to be hearing presentations from the Ontario Teachers' Federation, the Ontario Public School Teachers' Federation, the Ontario Secondary School Teachers' Federation, the Ontario English Catholic Teachers' Association and the Federation of Women Teachers' Associations of Ontario. I want to welcome you all here this morning. It is nice to see so many familiar faces. I should declare that right from the beginning. It is like old home week, and where were you when I needed you?

I understand the order that appears on your agenda is different from the order in which the presentations will be given. The Ontario Teachers' Federation will present first, followed by the Ontario Secondary School Teachers' Federation. The third presentation will be the Federation of Women Teachers' Associations of Ontario, the fourth the Ontario English Catholic Teachers' Association and the fifth the Ontario Public School Teachers' Federation.

ONTARIO TEACHERS' FEDERATION

Mr Poste: I am Ron Poste, the president of the Ontario Teachers' Federation. I would like to take this opportunity to introduce the presidents of four of our five affiliates who are here to make presentations to the committee this morning: Gene Lewis, the president of the Ontario Public School Teachers' Federation; Susan Owens, the president of the Federation of Women Teachers' Associations of Ontario; Liz Barkley, the president of the Ontario Secondary School Teachers' Federation, and Mike Coté, the president of the Ontario English Catholic Teachers' Association.

OTF welcomes the opportunity to make this submission to the committee this morning as it relates to the 1992 Ontario budget. We are pleased that this consultation is taking place before the level of transfer payments has been established.

As teachers we are very aware of the human and economic cost of the recession. We see the results of this day to day in the children in our classrooms, who in their own way are every bit as much casualties as their parents or older brothers and sisters who are unable to find work. We recognize at the outset that there is a major economic problem in Ontario at this time. Health, social service and social assistance needs are combining to create a financial problem of unprecedented magnitude. We recognize that recovery in Ontario will not be swift, that Ontario does face a massive economic restructuring.

Looking at this from the educational perspective, we would recommend and suggest that the committee resist any attempts to cut back the support of instructional pro-

gram. It is going to be very difficult for citizens of Ontario to compete in the global environment of the future. A literate, educated workforce is the province's greatest asset and the key to economic regeneration.

In my reading of the last little while, I did read an article by the CEO of the Magna corporation, who indicated that even in the apprenticeship programs now the demand is for an educated workforce. No longer can apprenticeship programs pick up the type of student they have accommodated in the past. Judith Maxwell, the chair of the Economic Council of Canada, made much the same type of remark. We are looking to a very different type of person if Ontario is to be successful in the future. Without a strong public education system, we believe it will be difficult for Ontario to achieve that objective.

You have heard a great deal about our concern about the decrease in the level of funding of education in Ontario through the provincial budget. We know it has gone from its once high of slightly over 60% to somewhere in the 40% level. We would recommend that every attempt be made to resist any reduction in that level of transfer payment.

The grant transfer system, as you well know, was designed to equalize the taxation effort and support equality of education across this province. We believe the reduction from the 60% to the 40% is having its impact on the ability of some areas to provide equality of educational opportunity. A further reduction in the level of transfer grants would exacerbate that problem.

We do see a possibility of saving in the integration of social services. At the present time, three ministries seem to have some overlap. A clearer definition of the role of schools and the relationship of the school to the delivery of social services, we believe, would result in greater efficiency. One has to ask the question, should educational dollars be spent to deal with needs that could properly be addressed through either the social system or the health system? The federation is prepared to work with government to see that saving realized in this area.

We are of the opinion that uniform criteria for the provision of transportation and the co-ordination of transportation among coterminous school boards has the potential for substantial saving. We also believe that uniform and improved accounting practices would permit useful comparisons and facilitate informed decision-making both at the school board and at the provincial levels. OTF is prepared to support and to participate in initiatives designed to ensure that the best use is made of available resources.

Major building systems in this province are reaching the end of their life expectancy and we know renewal and replacement is a major demand. New student places are required in areas of the province that are expanding. We are of the opinion that the extreme budget crisis is temporary and

we believe that savings could be achieved on a short-term basis by delaying some of the provisions for capital expansion.

Schools are recognized as the cornerstone of democracy and we believe they are critical to the development and maintenance of a strong, vibrant economy. It is particularly important in difficult economic times that the commitment of the government to a strong, healthy system of public education not waver. OTF would urge you to protect the next generation and its education in your budgetary deliberations.

You will find when the five affiliates present that there may very well be some points of disagreement, for each of us as an affiliate has a unique perspective on education in this province. I am going to ask each of the five affiliate presidents, or the four who are here, to make their presentations to you in turn. If their comments raise specific questions, when you question our group, I would ask that you direct that question to the president whose brief raised that point. I think you will get a more specific answer than you would coming through me. In my role as OTF president, I am looking at things as an overview.

With your consent, I would now ask the president of the Ontario Secondary School Teachers' Federation, Ms Barkley, to make her presentation.

ONTARIO SECONDARY SCHOOL TEACHERS' FEDERATION

Ms Barkley: I thank the committee for listening to our presentation. As I take you through the brief, I would like you to understand that we are just going to highlight various parts of it we think will be of interest to you.

We have the executive summary on page 1, one of the things our Premier has said is, "Our most important resource is human capital," the human beings. One of the ways we develop that human capital, of course, is through the educational system. We have seen that development in Germany and Japan, where they put a high price on and input into education, and we recognize how competitive they are. We also recognize in places like Mexico, where that does not occur, they are not globally competitive. We would like to stress that particular point.

We would say that in 1991 the Ontario budget was very helpful to the educational system. It permitted very modest mill rate increases in most instances. I would indicate to you that we took the brief we presented to you across the country, to BC, to Saskatchewan, to the territories and Nova Scotia, and they too found that particular brief and the approach of the Ontario government to education to be a very helpful one to them. It certainly motivated them.

Within the context of Ontario, you know there was a tax revolt coalition, which all of us here dealt with as best we could, and you see some of the kinds of material we utilized. I think those that supported quality education made a big impact in that particular election. For example, my facts that morning were that there were 11 tax revolters who ran and 11 who were defeated. But we do know that particular coalition is not going to go away just because the election is over, so we—I think it is we in this room

who support quality education—have to be ever vigilant and have to make very sure that the people of Ontario understand that it is an investment for the whole of Ontario and for its economic future to look carefully at the kinds of funds we maintain within the educational system.

I would say too that, though we recognize the economic crisis, we also know that it will be over in time and that in the process we cannot let the whole system, nor our buildings, for example, our capital funding, deteriorate. So we still support, if at all possible, the same level of public funding for capital expenditures, \$300 million, as last year. If we wait and do not do it, by three or four years from now, the expenditure will be excessive.

I ask you to look at the graph on page 3. Sometimes we think the public is not in support of school expenditure, but if you take a look at this Ontario Institute for Studies in Education poll, you can see how people looked at support for increased school expenditure. It still stays quite strong, in my opinion.

What we have now, though, are some boards that are panicking, and they are cutting what they call non-mandatory staff. For example, in Oxford—it is ironic—in order to get anti-recessionary funds from the government to create jobs, they fired about 14 people, who were speech pathologists and psychologists for hard-to-handle behavioural students. They created a real problem in an area where the hospital could not serve these children, and of course what that is going to mean is that these people will become dropouts and will cost us and society more in the end. We have to watch the whole area of education that in these times we are careful how we deal with cuts in education itself.

As with you, as with all the affiliates, we have always been in favour of some form of tax reform, be it in the property tax, certainly in the taxes corporations pay, etc, but now dealing with education, if you take a look at the graph on page 4, "Government Grants as a % of School Board Expenditures", our share is at 41%. It is too low. There is widespread support for property tax reform to shift more of the burden to a more progressive base, but at this point in time the provincial share is too low. You will see what I mean as we proceed through this.

On page 5—and this is something we have said on three different occasions in this forum—there is a question of high wage or low wage society, Mexico or Japan and Germany. We believe that if we go the high wage route, that is, pursuing the education of our youth and our adult population, we will be competitive. If we go the low wage route, as they have done in Mexico, we could well end up with a society like theirs and massive unemployment, and also a really discontented population.

The federal government seems to be seeking competitiveness through a low wage, low social expenditure strategy. We support the Ontario government's direction outlined below. As you said in your last budget, "Ontario cannot afford the rigidity induced by policies which focus on cutting wages and eroding public sector contributions to productivity." The alternative approach is for government to play a role as a facilitator of structural change to promote the development of high value added, high wage

jobs through strategic partnership. We still support that strongly.

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The Ontario elementary and secondary schools want to make education a lifelong learning. I will show you this. I know you cannot all see it, but this was at the beginning of a school year in Metro Toronto alone. There were 380,000 adults in Metro who went into our school system. In my home of North York, for example, there were 100,000 adults in night school, Saturday school and summer school, compared to 58,000 adolescents, showing you the massive need for that kind of lifelong continuum. We are very much in support of that particular need, as I know the Ontario government has indicated it is.

Going a little further, and I think this is something you may not really be aware of, at the bottom of page 6 we are talking about fiscal effort, as defined by Statistics Canada, as a percentage of per capita personal income that goes to fund local elementary and secondary schools. One of the facts that is going to surprise you is that we were 9th out of 10—not last—on per capita personal expenditure vis-à-vis income. We are now last, 10th out of 10 in Canada. Take a look at the graphs on page 7. Provincial expenditures on education have declined. Again, any way you want to look at it, we have become last, and this is not good.

On page 8 we are comparing all the educational systems around us: Quebec, New York, Pennsylvania, Minnesota. Again, the only ones below us there, I believe, are Ohio and Manitoba. We are competing with all these other systems and their end product, and we are not doing well. We have to take a look very carefully at that and the effect on our labour force and our ability to compete. Again on page 9 we emphasize that particular point.

We bring in these graphs because it is the only way to really illustrate the problem we have. They come from Statistics Canada. On page 11, though it is a little muddled there, is where we got the statistics from, for those of you who want to study and peruse this particular thing.

Going on to page 12, what we have here is an indication, right through to page 14, of the study that was done in Princeton which indicated that the more money spent on education, the better the lifelong earnings were of the people who were served, and of course that was reflected in taxes into the economy. That is for your perusal.

At the bottom of page 14 you can see the transfer payments, which you know only too well, and the disastrous effects of those cuts. One of the things we are a little dismayed at is that neither the particular government nor the opposition parties in Ontario make enough propaganda about how the lack of transfer payments affects Ontario and the country.

On page 15 we have statistics on corporate and personal income tax. In 1950, corporate income tax was 49.7% down to 7.4% in 1991; personal income tax was 11.7% in 1950 up to 37.1% in 1991. I do not have to say more. You can see that shift very well, and we know the NDP, through the Fair Tax Commission, is looking at the changes that have to come within the whole taxation structure, but we do not think we can wait that long, for example, for the corporations to begin to pay their fair share. No

matter what kind of hits you get from big business—they will hit you no matter what you do—you still have to do the right thing and the corporations have to pay their fair share. They have in other provinces. They have in many of the states, and contrary to the threats they give, I think it is essential that we start to force them to do that.

I proceed about other things we think in education are terribly important. I stress the question of sharing, and there should be sharing. OSSTF supports sharing, for example, in busing. There is no question it is highly expensive. The Auditor General told us that, and he is right. We should take a very careful look at that with input from the affiliates of how it can be done, but it should be done. We should look at things like sharing for technological studies, equally expensive, or special education services or in administration in the business area, co-operation in purchasing and warehousing and maintenance. All of these things we should look at for sharing. There is immense duplication and immense expenditure there, and that is the kind of expenditure where real savings can occur, so we ask you to look at that.

In the transition years, we cannot at this point in time afford the whole of restructuring. Of course there has to be reform, but take a really good look at destreaming, where it has been implemented: Rosedale Heights, for example. It is immensely expensive. Just ask somebody what the cost is of this whole restructuring process. I suggest, in this crisis, that you slow it down a little bit and see what ones are really necessary, because we are getting ourselves into difficulty.

As I have been told by all quarters my time is up, I would just ask, if at all possible, that the recommendations in some form be read into the record. I thank you.

Mr Poste: Is it your wish, Chair, to question the presenters after the brief, or do you wish to hear from all of us first?

The Chair: We prefer to hear from all of you and the rest of the period will be reserved for questions.

FEDERATION OF WOMEN TEACHERS' ASSOCIATIONS OF ONTARIO

Mr Poste: I now call on Susan Owens to present the brief on behalf of the Federation of Women Teachers' Associations of Ontario.

Ms Owens: I would like to introduce my colleagues from FWTAO who are here with me because I have brought them along to answer all the tough questions that are going to happen shortly: Margaret Dempsey, who is first vice-president of FWTAO, and Marilyn Roycroft, who is the executive assistant responsible for communications and political action.

We are here today on behalf of the 40,000 women who teach in our public elementary schools. As we have for the last number of years, we want to speak not just about adequate funding for the education of young children, but about some wider social issues as well. We also want to acknowledge at the start that we, along with my colleagues who spoke before me and along with most of the people in this province, recognize the serious problems in our economy and we know how difficult it is at this time for a

government even to maintain the funding for existing programs.

But we want to emphasize that the responsibility facing any government, regardless of the economic times we are in, is to set priorities for spending. There may be fewer dollars than anticipated, but where they go should reflect both the principles and the ideals of the government. So what we are going to deal with today is our view of what the government's priorities should be, given the limited funds that are available.

I would like to focus on three key issues. First, the financing of education: For more than two decades our organization, FWTAO, has submitted briefs and made presentations on the subject of education finance. We believe major changes in education funding in the middle of the review process would be a very grave mistake. Adequacy and equity are guiding principles in education finance. We also believe it would be very helpful if all the review processes that are in place right now were able to determine the true cost of educating an elementary student.

Second key issue: We are very pleased with the growing public awareness of the importance of the early years in a child's education. The ministry's initiative to reduce class sizes in grades 1 and 2 is a recognition of this importance. We believe, however, we need smaller class sizes in all grades. We now know without question that what happens to children in the early years largely determines whether they will be successful in school and actually remain there. In fact, research has shown that money spent on early education is money saved from future remedial and social programs. With regret, I must speak in opposition to the Provincial Auditor's report that says there is no correlation between class size and effective outcomes for children in the future. Elementary teachers want to do the best they can for their students, but they must have the class size, the preparation time, the adequate support personnel and the proper facilities to do the job.

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Third key issue: The measure of a civilized society is how well it protects the most vulnerable, and we believe that we must make poor children one of our priorities and one of your priorities. We presented a brief called *Poor Children in Ontario Schools* to this committee in January 1990 and also in January 1991. It was a clear call to action.

The recently published report of the Child Poverty Action Group supports our call to action. It documents the appalling numbers and the fate of one child in six who happens to be poor right now in Ontario. I quote from that: "To be born poor is to face a greater likelihood of ill health in infancy, in childhood and throughout your adult life. To be born poor is to face a lesser likelihood that you will finish high school, and lesser still that you will attend university.... To be born poor is simply unfair to kids."

In the past two years, in my capacity as vice-president of FWTAO prior to being president, I have had the opportunity to visit over 60 school boards in Ontario. I can corroborate the fact that our teachers see the face of poverty in the faces of their students every single morning—hunger, abuse, neglect, drugs and violence.

We have suggested both short-term and long-term solutions that should be priorities for this government, and I would just like to point these out. There are four:

1. Provincial funding should be available for school meal programs and nutrition counselling. It is our belief, however, that those programs should not be solely government-funded. The communities must be involved. They must make the decisions about what programs would be appropriate for them. But we believe we have to make it happen, and that is where provincial funding comes into play.

2. A provincial push for a substantial increase in low-cost and non-profit housing.

3. Provincial funding for health care professions to be in schools.

4. Provincial recognition that child poverty is part of the feminization of poverty. Government action on accessible, affordable child care, fully enforced pay equity, mandatory affirmative action and better training opportunities for women.

We commend the government for taking action where parents default on support payments. That one change, we believe, will have a dramatic and positive effect on many of our children's living standards in our schools.

The recommendations of the Social Assistance Review Committee's 1988 report were insightful and far-reaching. We continue to believe that people should be helped to move from dependence to self-reliance and we urge the government not to waver from its commitment to job creation, increased minimum wage and income supplementation for the poor.

Finally, we want to stress the importance of co-ordination and integration of the health and social services presently available to poor children, families, communities and schools. In our Response to the Formative Years Consultation Papers in February 1991, we said we needed five things:

1. Community-based programs to involve and educate parents and teachers about drugs and child abuse.

2. The co-ordination of and an increase in special services.

3. The integration of child care.

4. Co-operation among all of the education groups in terms of resources and expertise.

5. Co-ordination and sharing of recreational facilities.

In summary, we argue that during review processes of educational finance and funding, adequate funding levels must be maintained. We urge you to give priority to the needs of poor children, women and poor families. We believe very strongly that when the poverty cycle is broken, every single one of us gains.

We hope you will recognize that a typical home may have any of several social problems, and a child who comes to school hungry or hurting or frightened will never be able to learn.

Our members are part of their communities and they are seeing and they are also feeling personally the effects of this recession. We believe co-ordination of services may be a better use of current resources. Our chair was actively

involved in the Children First document. We totally support the concepts that are put forth in that report.

We believe the co-ordination of services has the potential to help all children in need to develop socially, emotionally and also educationally, and all at the same time. These are the priorities of our federation. We hope you share them and that they will be reflected in your recommendations. I thank you for having the opportunity to present today.

ONTARIO ENGLISH CATHOLIC TEACHERS' ASSOCIATION

Mr Poste: Our next presenter is Michael Coté, president of the Ontario English Catholic Teachers' Association.

Mr Coté: The Ontario English Catholic Teachers' Association is pleased to appear before the committee to present some of our views on the 1992 provincial budget. Just a few months ago we appeared before the committee to provide a reaction to the 1991 budget. In our concluding comments, we recommended that "the wellbeing of the citizens of this province remain the number one priority of Ontario legislators."

We wish to reinforce this statement and to indicate that our priority must be our people, well nourished in mind, body and spirit. In order to achieve this goal of a well-educated, healthy citizenry, we must continue to adequately fund our social institutions. On the issue of adequate funding for public and separate elementary and secondary schools, we make the following observations.

1. The majority, over 95%, of school boards in this province spend beyond the grant ceilings established by government. The ceilings must be raised in order to provide more equitable access to education dollars.

2. Downloading of education costs from the province to local school boards must be reversed. This is a regressive form of taxation and does not place the burden of education costs fairly on those who have the ability to pay.

3. The Ministry of Education is currently undertaking a massive review of the educational system. Many of the proposed initiatives have significant financial costs. We cannot create new and additional educational reforms while at the same time flat-lining or seriously limiting major transfer payments.

4. Capital financing of facilities deserves a closer look. A recent survey of our organization indicates that approximately 20% of students in the elementary and secondary schools are housed in portables. Copies of our September Agenda newsletter and the Reporter magazine that we send to every one of our teachers give the details about this serious lack of facilities, and they have been distributed to the committee members. I hope they will have a chance to read them later on and see the seriousness of this problem of 100,000 of our students housed in temporary facilities.

OECTA recognizes that the current recession has had a major impact on the Ontario budget. Yet we believe we must continue, as the government did in the 1991 budget, to invest in our future, in the education, health and social programs of our people. As I said, we were here just a few months ago praising this government for the action it took, and I hope you will stay the course. Now is not the time to

do an about-turn and go 180 degrees in the opposite direction.

We are not as pessimistic as some and know that our investment will pay great dividends. In a recent Conference Board of Canada survey of forecasters, the average economic growth predicted for 1992 was almost 3%. Economic research reports from the Toronto-Dominion Bank and the Bank of Montreal indicate similar growth rates in the 3% to 3.5% range. We have some charts at the end of our brief to support that.

Just by way of an aside, I found it very interesting in the Toronto Star's business section yesterday to read that the Bank of Montreal showed record profits again in 1991. The bank's profits went up by 14%—\$73 million—for a total profit of \$595 million. That 14% profit was based on 1990, when they had record profits. It makes it a little difficult when you read figures like that to think that everyone is suffering equally in this recession.

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In order to balance fiscal responsibility of the province with the reality of education costs, and following a move to increase the grant ceilings to a more realistic level and to stem the flow of downloading educational costs, OECTA recommends to the committee that increases in the 1992 legislative grants to school boards be cost of living plus 2%. While this may not address all the immediate educational needs across the province, it will at least maintain a quality of program of which we can be proud.

The Ontario English Catholic Teachers' Association commends the government for its initiatives this past year and supports any recommendation of this committee which will maintain and enhance our vital social institutions.

Just to take you quickly through our charts that are appended to this brief, the first one, on gross domestic product from Statistics Canada, shows that the forecast for 1992 is growth in the range of 3.5% and, for 1993, 4%.

The second chart lists several Canadian economic indicators. The source again is Statistics Canada. In the quarterly indicator down near the bottom, the gross domestic product annualized percentage increase, first quarter of this year to first quarter of last year, there is a 4.9% increase.

The third chart is headed "Ontario Leads Provincial Growth Forecasts." The real gross domestic product annual percentage change shown there, again from the Conference Board of Canada, illustrates that Ontario is projected to have a 4.5% higher increase than any other province.

The fourth and last chart, one of the leading indicators, "Housing," from Statistics Canada and Canada Mortgage and Housing Corp, shows that real housing expenditures in Canada will grow by almost 6% in 1992.

ONTARIO PUBLIC SCHOOL TEACHERS' FEDERATION

Mr Poste: Our next presenter is Gene Lewis, president of the Ontario Public School Teachers' Federation.

Mr Lewis: Ladies and gentlemen, I will be referring to the green document. As Ron said, I am Gene Lewis, president of the Ontario Public School Teachers' Federation.

I am joined here today by David Lennox, our secretary, and Vivian McCaffrey, our legislative observer.

While many recommendations are presented in the report, I think the key for all of us to recognize is that Ontario's greatest resource is its children. The document is intended to urge and encourage those who set the provincial budget to continue to support our education system in a manner that will allow the children of Ontario to learn in safe and secure surroundings and allow them to maintain their health and their dignity in times when many of the families are facing challenges, as we well know. I would like to say that we appreciate the timing of the consultation this year. While we have made many presentations in the past, we think the timing is more likely to facilitate impact on the budget processes.

During those many presentations in the past we have often focused on the structure of education finance in the province and the most obvious need for change. This year's brief, however, does not focus on those structural problems in the financing of elementary and secondary education because of the work of the Fair Tax Commission. We want that commission to have every opportunity to bring a new structure to education finance in Ontario.

I suppose our major concern could be directed to the minister's comments that were reported in the *Globe and Mail* on November 19 about a possible 3% or less increase in transfer payments to school boards. This brief focuses on what the potential effects of limited transfer payments and minimal increases could have on education.

On various pages in the brief, we comment on some of the cutbacks. Last June in a presentation to this committee, the Treasurer commented that simply flat-lining the transfer payments would result in one of two options: a 4.2% increase in local property taxes or the closing of 6,000 classrooms in the province. Both alternatives of course are quite unsatisfactory.

Another impact of inadequate transfer payments would be larger class sizes at a time when our curriculum and the services we provide to children require that class sizes continue to be at an acceptable level. We appreciate the initiatives of the previous government in that direction at the grade 1 and 2 level and the support of this government in maintaining those class sizes.

If school boards are forced to cut services because of inadequate transfers, the likelihood is that non-teaching personnel may be affected, the psychologists, the psychometrists and the social workers who provide the services to the children who in today's economy are most likely to be found wanting and in need.

Additionally, the government made some movement last year to address the gap in funding between elementary and secondary education. That was appreciated. Inadequate transfers would not allow that to continue.

I think realistically we have to look at the impact on school boards. For the most part in this province, school boards have made a commitment to maintain quality services to children. If the funding does not flow from the provincial body, then school boards are going to be forced into cutbacks of programs, which they do not want to do. We will see increasing pressure for fund-raising at the

school level, which provides many inequities based on communities. The pressure on school boards to force child care centres out of the schools as enrolment increases would be another area where we would have significant concerns. I think all these examples would affect the children and the families who are most severely hit by the current recession and, as such, are untenable.

We point out in the brief some potential areas of cost saving. We are not quite as optimistic as Douglas Archer; we do not see tens of millions of dollars in saving. We do see there is potential for some saving by the sharing of transportation services, administration and purchasing among coterminous school boards. We are concerned about some of the recommendations, however, because their focus is purely fiscal and does not focus on the needs of children. While shared busing may generate financial savings, it could also create difficulties for kids and their families. We cannot have as our focus purely the saving of cash.

As suggested in the document, sharing should be voluntary and should respect the constitutional rights of the Roman Catholic community and the minority-language educators. We suggest that pilot projects and studies in this area would be worthwhile endeavours.

Another area where we are looking at the possibility of cost saving, as was mentioned earlier today, is the integration of children's services. We suspect the government will want to study the possibilities there, because we believe there is an opportunity to provide better services to our children and to save on administration costs.

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On page 11 of the document, one of the areas we focus on is support for the request made by the Ontario Coalition for Better Child Care for \$45 million to pay for 5,500 additional subsidized spaces and to maintain the 1990 level of program funding for child care in the province. We point out the fact that there really is not an adequate system of child care in this province. There is not a system that provides adequate accessibility to the children of working families, and action needs to be taken in that area.

Finally, while the recommendations are before you, OPSTF does not support cutting expenditures in social services. At a time when many of the families in our province are suffering, we cannot take the social support systems away from those people. We suggest it would be better, in the alternative, to introduce modest tax increases if necessary and to allow the deficit to rise a bit more, because we also share OECTA's optimism that while we are upon hard times right now, we see some brightness in the future.

We appreciate the opportunity to speak with you this morning.

The Chair: Thank you very much. You have all presented and I am sure there are questions. I repeat once again that if you wish to refer some to the staff you have with you, please feel free to do so.

Mr Wiseman: I would like to thank you for your presentation. Just to give you a little background on where I am coming from with my questions, I spent 15 years in the classroom in a secondary school and I have currently two

children in an elementary school, one of them in a portable and one probably soon to be in a portable, in a board that has 489 portables in the public school sector and an equal number in the separate school sector.

It is a board that seems to be wealthy enough that it is currently thinking about debenturing and planning to debenture a new office administration building to the tune of \$26.2 million. Just to give you some idea of the importance of that \$26.2 million, when the Durham Board of Education brought forward its list of priority spending, in the first four the total was \$8.7 million. But that board refuses to spend any money other than money from the province to build capital structures.

My priority in terms of education is, what does it have to do with the student right in the classroom and what is the effect? If you are going to spend money on administration someplace, how is that going to affect me as a classroom teacher—when I was a classroom teacher—and how is it going to improve the education of the students? I would like some comments from you on the idea of debenturing schools.

Ms Barkley: I have heard about the situation in the Durham board, of course. If I taught in the Durham board, I certainly would do two or three things. I would make a presentation of a parental group to the board of education, being shocked and appalled and deploring, because you should be. Certainly a petition should be signed in the community. With the educational dollar and all other dollars, each one we count being important at this point in time, with no excesses, I think that kind of expenditure should be exposed and opposed.

I would get some friendly trustees—there are one or two I know of—to try to head that up and organize within the community, because that kind of expenditure in this kind of climate is absolutely unacceptable. That should be made abundantly clear. That is not where we would put the educational dollar or where any of us would say the educational dollar should go. So I would start to organize within the community itself. Probably in many cases they are not aware.

Mr Wiseman: I was on the stage on Wednesday night in a school that has overcrowding. The unfortunate consequence of their school building washroom space for 1,200 students was that they got all the portables and the other ones that were being built did not.

My other question is on the busing and combining some of the costs. My community has a rural component. A separate school bus comes along and picks up some children and drives along half full to the school, and then the public school bus comes along and picks up the neighbour's children and drives down to the school that is right across the road. Yet what we are hearing is that the administration of the separate school board will not contemplate combining busing. How much time do I have left?

Mr B. Ward: Before you answer—

The Chair: Excuse me, Mr Wiseman, may I interject just for a moment? First of all, I would recommend that

your questions deal with the global in the group. We are dealing with pre-budget hearings.

Mr Wiseman: They did mention combined busing in their briefs, so I just wanted their comment about how we could achieve that in boards that are reluctant, that are just going to say no.

The Chair: You are going to generalize the question.

Mr B. Ward: A point, Madam Chair: How much time does each party have? I recognize there is nobody here from the third party.

The Chair: I had hoped, seeing I saw no early response, that we would be able to just forward the questions, especially since Mr Sterling has had to leave, but if in fact we are going to have to divide the time up according to parties, it is going to be a little overweighted.

Mr Wiseman: We have got lots of time left.

The Chair: If I see there is a problem, then I will certainly move from them and on to you.

Mrs Sullivan: I have lots of questions.

The Chair: All right. Mr Wiseman and others, please make your questions concise and direct. I understand you have an answer, Mr Lewis.

Mr Lewis: Having come from a rural background myself, I understand that is the situation. We recognize there are cost savings that can be effected, but I think the question is more properly redirected to the government, to provide some leadership and some assistance and some encouragement to allow school boards to co-operate effectively.

The Chair: Is there anyone else who would like to respond to the busing? Mr Coté?

Mr Coté: What we would suggest as an idea to be explored—we think it has some potential for cost savings here—would be that there be a commission in each municipality that would deal with the busing for both school boards or all school boards—if you have a French school board, there could be three coterminous boards—and that this commission, I will call it, would organize the busing for all the students. There would be one organizing entity for the municipality and the busing would be provided appropriately and equitably for all the students and the boards would pay according to the number of students they transport.

Mr Wiseman: My last question is a quick one.

The Chair: I think there are two other comments on this.

Ms Barkley: I think this busing thing points out something we indicated in our brief. One of those things was, if you take the Ottawa area, we have five boards of education in Ottawa with 88 trustees. The duplication there is massive. I would suggest to you, whether a board likes it or does not like it, when there is duplication which is a waste—and your example was a good one—I do not think it is the board's choice. I really do not. I think we have really massive duplication which is a waste—I say Ottawa, my own group included—and it should be looked at and should not be allowed. Certainly if it could be done

sensitively, as Mike points out, all the better, but if it cannot, it should be done in any case.

Ms Owens: Just one final comment about the busing issue. I see it as a very similar issue to the whole integration of children's services, that we have to look at ways we can be more effective in how we use the money. But if I can reflect on one of the comments that was again made in the paper about a procedure for cutting down on busing costs, we would have to look at what we talked about in our brief, the principles and the ideals. For us the focus is children. We have to make sure that whatever we do, it is for the betterment of the young people and not just for cost-cutting measures.

The Chair: We are going to move on to Mr Jamison. If there is time we will come back to you, Mr Wiseman.

Mr Jamison: I would like to thank you for taking the time and making the effort to put these presentations forward. I think it is very important that you be here today to be heard, and I do agree it is timely that you be here.

I have heard from a number of the presentations today that there is a realization that our economy may have bottomed out and, to use the Treasurer's expression, is bumping along the bottom at this point, hopefully finding the step to get things under way again.

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The revenues of the province are down. Revenues were forecast to decline by 1% this year over projections. At the same time the province had to cope with the federal government deficit and its policy of offloading on the provinces in the form of lower transfer payments. Just for an example, federal measures taken in the 1990-91 budget alone are estimated to have cost Ontario \$1.6 billion in the form of reduced Canada assistance plan and established programs financing transfers that normally take place.

I understand that the problem with downloading is one that is there and I understand that what you are saying is to maintain adequate funding through this period of time. Certainly our intentions are to stay at the deficit levels we forecast. I have two questions. This is the first: Where would you see the money coming from in trying to stick to the projected level of deficit that we feel it is important to try to stay at?

Ms Owens: I would like to respond in three ways. First of all, I believe that it is not our responsibility to tell the government how to develop the plan but to say that we have a philosophy that guides what issues are important. That is number one. I think there are some creative solutions, and I go back to the integration of children's services. There are ways that we could probably use the same amount of money but more effectively and more efficiently. I think that is very important.

The third thing I would like to highlight that we talked about in our brief is that we do not want to make short-term cuts that are going to have profound long-term effects. I go back to our comment about the fact that money spent on early education is money saved in future remedial and social programs. We know what has happened in the United States when funding has been cut in education. It has had drastic negative effects on the future of the children.

Ms Barkley: This deals with your question and it deals with the question put by Mr Wiseman as well. Traditionally school boards have debentured to build schools. They have often done that. Now is a good time, as construction costs are low and interest rates, as you well know, are going down, for Durham to look, for example, as others should, at debenturing. It should be a suggestion this government makes when there are capital needs. That would be one thing.

I will go back again. There are two solutions. Susan has certainly mentioned a few that we would support as well. But you do have to look—and I know the NDP is reluctant to look at it—at the corporations that are basically tax-free in Ontario. If you look at Maude Barlow's whole list of corporations, 60,000 or so, etc—I think you have to take a look at that. Whatever the public heat is, it is a real factor. We can compare ourselves with other jurisdictions and that is not there. They are not good corporate citizens. That is another one.

Again, I know I may not be too popular when I say this, but the duplication of services has to be looked at without any incursion on the Catholicity of the other system or the Frenchness of the other system. There are a whole lot of things that we can do that can save literally millions and millions of dollars, and it is not just on busing.

I give you those three suggestions as ones that at least should be looked at. Again, if we can hurry up the work of the Fair Tax Commission, that would be helpful as well.

Mr Jamison: One part of your report is very concerning to me and I am sure to many of us. That certainly reflects part of the answer that was given. That is the need for proper housing, the need to address poverty and the needs in the area of child care and how that can affect the education system. I understand from information I have received that the very early child education years are found to be more and more important as to their effect on the early development of a child's education and are paramount to their prospects for success in life. I wonder if you would like to make a comment on that.

Mr Lewis: One of the positions this federation has held for a number of years is the inadequacy of elementary funding in the province and recognizing, as you say, that the maximum benefit from tax dollars is achieved through early education. The other issue I think we have to recognize is child care. The whole lack of a system of child care needs to be addressed seriously by this government, and the fact that only 20% of the children whose parents work in Ontario are in licensed facilities. There are 5,500 vacant spots and 12,000 eligible children for subsidy on waiting lists. It does not jibe. Those issues have to be addressed. I think there is a growing recognition among all communities that it is essential to put the resources at the early levels.

Ms Owens: Just to acknowledge what you are saying—and obviously it has been a key point of ours for years of presentations—I draw your attention to the sources we have put in the brief. I think each one will document clearly the importance of the early years and how critical they are to children's future successes. I also

draw your attention to people like David Weikart, who have done studies about the importance of the early years and the long-term effect. A book I am working my way through is called *When the Bough Breaks*. It has a focus on the American system, but clearly states that if you do not have those support systems in place for children, we are all going to pay in the later years.

Mr Poste: I would like to take a slightly different approach to it. You hear us regularly speaking on behalf of children and in our opinion these members of our society are in a position where they really are totally dependent on adults and not in a position to help themselves. In our brief we indicated there is a fair bit of overlap in various ministries. When we look at lack of action, or trying to promote action, quite often our suspicions are that there is a lot of goal-tending going on in the provision of services in the field. The government may very well want to consider whether it wants to take a hard line and put the people who are in a position to have a greater control over what is happening to them—and I am talking now about the adults of our society—into a position where the children are going to start to get a priority because they do not have the opportunity to control their destiny in the same way.

Mr Coté: I fully agree with the comments made by my peers here about the value and the economy in the system and so on. Everybody wants to see good value for their dollar and we want to run the system in the most efficient way possible, but something that has not been said clearly enough is that we do not have enough money in this system right now. It is clearly underfunded. At the risk of being as popular as a skunk at a garden party, we have to raise taxes. We need more money.

The statistics OSSTF had show you that on the basis of comparing average incomes to the percentage that goes into education, we are the lowest in Canada. Coupled with taking every step to have the most efficient economical system, the best value for our dollar, we need more dollars. It is going to mean a higher provincial income tax.

Ms Barkley: I support my colleagues when they say there are a great deal of resources we could and should put in to the young child. There is no question about that. As you examine that, just remember that if you take a look at the boards that were forced to spend over the grant ceilings, the amount they had to spend over the grant ceilings on secondaries far outweighed that in elementaries because of the real, pragmatic cost of the education of a secondary school student. While supporting the stress on the young child, do not forget the other part of the equation as well. Therefore, I support what Michael says. The problem is, we do not want to get into a situation where it is one or the other. That, of course, we want to avoid. Both needs are there.

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Mrs Sullivan: Some of you may not know that Liz Barkley and I were in university together and she is just as feisty now as she was then.

I was very interested in reviewing the recommendations with respect to the upcoming budget from each of your reports. Some of you were quite specific in making

recommendations about transfers and drew some conclusions from those recommendations. The 60% funding level rode through each of your presentations. I think it was mentioned in virtually each one of them.

I recall sitting in stunned disbelief about this time last year when Marion Boyd, then Minister of Education, appeared before this committee and told us for the first time that the New Democratic Party commitment to 60% funding of education included teachers' pensions, capital and a cap on the approved spending and not the actual spending. She indicated that is what she campaigned on and she thought everybody understood that. I think we were all quite taken aback. People from the teachers' federations were certainly taken aback at that statement.

I am interested, however, that until there is a new recommendation, the 60% is still a matter of priority for each of the federations and would appreciate some comment on the 60%. I am also interested in the recommendations relating to allocations for this year. I notice that the public school teachers' federation is specifically requesting rate of inflation, about 3.3%, plus 1% to 2% for growth. OSSTF is indicating inflation. The English Catholic teachers' association is indicating inflation, 3.3%, plus 2%. I do not think there was a specific recommendation from the women teachers' associations.

The underlying assumption of 3.3% inflation, plus 1% to 2%—I think one of the organizations represented the additional as necessary for growth—was that amount of transfer would keep the system at its current level. I believe that is included in at least one of the briefs. In my view, and I believe in the view of people looking at education financing, inflation plus 1% or 2% indeed will not keep education at the current level of service in the system. I would like comments on the 60% as the actual request you are bringing forward to the Treasurer, because that will underlie some of the recommendations we make.

The other thing, as we look at the transfers themselves, the MUSH sector, the universities, schools and hospitals, which is very apparent is that in every one of the universities schools and hospitals sectors, the service sectors dealing with people, a very high component, usually over 75%, of the expenditures in those areas relate to salaries and benefits for people who work in the system. The Treasurer has indicated to the Ontario Hospital Association that he has spoken directly with the unions which represent hospital workers, the Canadian Union of Public Employees, the Ontario Public Service Employees Union and the Service Employees' International Union, and asked them to hold the line on their wage requests. I wonder if the same request has been made of teachers and other people who work in the school systems and what your response has been.

Mr Christopherson: Yes or no.

Ms Barkley: Exactly. I would like to go back to what I think is the most important point here. I would agree with your assessment. When we say 3% inflation I think it is an incorrect way of approaching it, because that 3% does not have the GST included and now it is going to be taken out of inflation, but it is still there. It is a cost. As well, if you

look at the package of goods on which the federal government assesses inflation, it does not include what it did 10 years ago. We have to go back and take a look at what is inflation, or that 3%, because I do not think that is real cost. I tend to agree that it has to be looked at again. There is no question about it, if it is just 3% next year and transferred to the municipalities, there will be massive cuts. You are absolutely correct.

I agree, if it comes, it is not going to be satisfactory to the system. The municipalities will be forced to cut so that should be reassessed, possibly by the government, the opposition parties and ourselves.

There is another problem. We have always had 60%. As we look at the grants and try to assess the real transfer, they do not make sense. We have to have another way of financing education which I think both opposition parties, the government, ourselves and the affiliates are looking at. What is the true cost of education? The grants do not reflect it realistically. We have said 60% because that was at a time when education was adequately financed. As we go through this whole look at tax reform we will come up with another approach to how education should be funded.

We have to be very careful when we say the government said to OPSEU. Yes, the government did say to OPSEU, and you saw what happened at the Ontario Federation of Labour convention. This is not working because you cannot tell one segment of the population you are going to have a wage freeze and not deal with the private sector in any way. I am not calling for wage controls, do not get me wrong, but you cannot have one arm of society paying for the recession. You cannot do that. We have to look at our whole society. One arm is not going to do it. We would not accept that kind of thing at all. We are not here, because we are public sector workers, to pay for the recession.

I will give you one last point. Every time we have a recession the public sector is attacked and they get stripped. It takes us much longer, if ever, to make those strips back than it does the private sector, so we would not readily accept that kind of wage freeze or controls at all.

Mr Coté: I will start with wage controls. I will not belabour it, but just tell you that our affiliate has taken a very clear position in a recent motion by our provincial executive which we have published far and wide to all our members that we will not support any form of wage controls. Second, on our particular affiliate's recommendation of inflation plus 2%, which was found at the bottom of page 3 in our brief, I would point out that it is irrespective of costs attributed to growth and enrolment, so where a particular board may be gaining students, we are proposing a percentage increase to the grant plus 2%. If a board was in a growth situation, that board might see a 7%, 8% or 9% increase because they have an increased number of students.

On the first issue, what does the 60% mean? I think that has probably been adequately answered. I agree with that. We are referring to what was funded at the 60% level in, I believe, 1973 and we certainly do not agree it is pensions or any of those other capital items.

Mr Lewis: Our brief is one of those that recommends inflation plus an additional 1% or 2%, but I think the people in the room have to recognize that recommendation is in response to the current economy in the province. The fact is that a recommendation of that nature is simply to keep the system from collapsing, it is not to provide improvements.

We are of course quite optimistic about the 60% issue and we are sure it is going to happen because all the parties in the room at one time or another have supported it, generally just prior to elections, so we continue to be optimistic.

1130

Ms Owens: I want to corroborate the fact that yes, there are not specific numbers in our brief, but there are three points that clearly state what it is we believe in. They are all to be found on page 2.

1. We believe major changes to education funding in the middle of a review process would be absolutely inappropriate and in fact a grave mistake.

2. We are very pleased to be participating in the Fair Tax Commission and we hope to be involved in the ministry review.

3. We hope these review processes will look at the true cost of educating an elementary student.

I think then we can talk about specifics, and that is why we did not.

Mr Phillips: I have a feeling when the smoke all clears in a couple of years there will not be much mystery. There is property tax, there are provincial revenues and there are total expenses, and you can figure out the percentage. My question is about the Fair Tax Commission. I think we have your recommendations here. The expectation from the teachers' group that is participating on the Fair Tax Commission is that as a result of that—I am asking the question, but this is my understanding—there will be some mechanisms whereby the province will find the solution to its funding of the 60%. Is that the going-in expectation of the teacher's federation on the Fair Tax Commission?

Mr Poste: I am responding personally. I think our objective is that the Fair Tax Commission will come up with a process that will generate required funding for the variety of things Ontario is involved in, education being one of them. The 60% figure that keeps coming up goes back to a commitment made by a former Treasurer of the province. At that time there were certain types of expenditures that formed that 60% basket. Our concern is the same game might be going on in Ontario as the feds quite often play with cost of living: When they do not like the items in the basket because they are creating an unacceptable answer, they change the items in the basket.

Certainly the inclusion of capital expenditures and contributions to the teachers' pension plan was not in the initial 60%. Adequate funding is our objective. Right now we use the 60% because it is at least something tangible we can hang a hat on. We would be prepared to look at other alternatives as a part of that whole approach to fair tax in Ontario.

Mr Coté: Our affiliate is not going into the Fair Tax Commission deliberations with any set percentage we are looking at as a magic formula that if reached would solve all the problems. A phrase that has been coined is equity of outcomes. That is what we want to achieve. We want to see some equity in this province.

I find it very unsettling, disturbing and unacceptable that in one place a board spends in the neighbourhood of \$6,000 or \$7,000 a pupil and another board not more than 100 miles away spends maybe \$3,000 or \$4,000 a pupil. When there is such disparity I think what we have is a broken system, not a system that can be patched up or repaired with Band-Aid-type strategies. I think we have to dismantle the system and build a new one that will be equitable so that we really do have equity of outcomes for all our children in this province.

Mr Lewis: I do not think we are looking to the Fair Tax Commission to solve all the problems of the funding of education in Ontario. It is my understanding that commission has as its main focus the review of property tax issues. I think we are quite hopeful that the ministry's own internal review of education finance is going to address, first, the true cost of educating a student in this province, and second, coming up with a fairer balance between local and provincial responsibilities. I would say that we do not put all our eggs in the one basket. We see two avenues to address the issue.

Mr Sutherland: I see Liz Barkley has left. The OSSTF brief mentioned Oxford, and I am certainly very interested in that. Some of that board is covered by Mr Jamison in his riding and he is certainly very concerned. I do want to pick up on the comment I believe Mr Poste made in the OTF brief about co-ordination of services, because my office has been active in trying to do some co-ordination around the speech services as a result of some of the cutbacks that came out.

We had a meeting two weeks ago in our office, the second one, and we had all the providers of speech service in the riding there. I was struck by a comment by the director of the hospital who said this was the first time in the 11 years the hospital has been providing speech services for children that all the players had been in the same room. I think there is a great need out there for co-ordination of those types of services.

I want to direct my question on the issue of co-operation. Mr Wiseman asked a question earlier about that and there was a comment made in response that the government should provide some incentives and take a leadership role on that. What more incentive is there a need for, in terms of trustees making those decisions to co-operate on issues such as busing, other than their specific local accountability to the taxpayers who are saying they have a great deal of concern about the amount their property taxes are going up? I would like some comment on that.

Ms Owens: In terms of co-operation, I would like to talk about the integration of children's services and perhaps put it from that point of view. I think the question you are asking is, why would trustees want to get involved in this other than the accountability.

Mr Sutherland: The comment was made that the government needs to provide incentives, and it seems to me like you are saying there should be financial incentives for coterminous boards to co-operate. Is the incentive not there in terms of the accountability to the local taxpayer to begin with?

Ms Owens: I think if we focus on the reason why we are all there, which is for children, and if we are looking at the ways we can benefit children better, then that is for sure the other reason. The fact that you have related a story where the speech therapists in the hospitals had not ever had a chance to talk to the other groups is very key. That is the kind of co-operation and sharing that is bound to have payoffs for all of us while not necessarily demanding increased money or funding.

Mr Poste: I wish to provide a little more information. Liz Barkley had to leave. The OSSTF is sponsoring an adult education conference today and she is addressing the group at noon. But Larry French is prepared to respond on behalf of the OSSTF brief. If it is your wish, he will do that.

The Chair: You could join us at the table.

Mr French: Could I just say a word about the incentive grants? In fact, as Mr Phillips and Mrs Sullivan might remember, for the last three years we have recommended a system of incentive grants to promote the sharing and co-operation and integration of services. Mr Wiseman has mentioned it. There is a resistance for many reasons to the sharing, even in things like buses where it should be easy to imagine you can do this sort of thing without cost in terms of denomination.

We feel if the Treasurer comes up with a system of incentive grants that really makes it worthwhile for a board to share, the costs will drop. We know the cost will drop dramatically on things like busing—we have seen the auditor's reports and so on—and the cost will go down. The local taxpayers will pay less, everybody will pay less and even the grant will be returned because the total cost of the operation is lower. We think this is a model that should be considered in many areas and it could be done in a sophisticated way that does not damage anybody's vital interests.

Mr Lewis: Our brief as well recommends the incentives. I think while on a surface level it is fine to say that boards should respond to the needs of the taxpayers, the political reality is somewhat different. I suggest incentives would encourage trustees to make the appropriate kinds of decisions.

Mr Sutherland: It would seem to me, on that comment, that on the surface level it should be, but Mr Poste's comment about goal-tending I think would come back to be somewhat relevant in this case, that it is in everyone's best interest that we stop the goal-tending and fortress-building that has gone on.

I was wondering if each of you would like to comment on the recent municipal elections. In my part of the province I observed the elections, particularly for school board trustees. We heard some comment earlier about that. I did not see a great turnaround in the trustees, even in my riding

where cutbacks were made. There was not a great turnover in southern Ontario. There did not appear to be a great turnover in the trustees. Could you comment? What message did the taxpayers send the school boards about education financing in the municipal elections?

•1140

Mr Poste: It was the position of the Ontario Teachers' Federation that good quality trustees be encouraged to run, people who would not have vested interests but would be able to take an open view of the system. Our analysis of the results indicates that the taxpayers and the voters of Ontario did take a good look at the level of trustees. Perhaps my affiliate presidents would have different viewpoints.

Mr French: We were involved up to our necks in the trustee elections in many parts of the province. We were worried about the tax revolt. My director in fact went to Los Angeles and did a Proposition 13 study, which we recommend to you folks. We have a video that is very powerful on the effects of Proposition 13, the tax revolt in California. We produced some brochures about electing quality trustees.

We were convinced the tax coalitions were going to be able to elect people, but in all of the areas, including Kent county, Blenheim, the home of the tax revolt, the tax coalition person did not make it. I think we misjudged the innate good sense, you might say—we were worried about it—of the Ontario taxpayer which, I support Ron's view, did come through again. Obviously the citizens of Ontario are concerned about taxation but do not want the kind of radical solutions the tax coalitions have proposed. There was only one great breakthrough and that was in Caledon where the tax coalition people swept the decks with the municipal government. All the representatives from Caledon, except for trustees, are tax coalition people. That is the only place in the province.

Mr Coté: In response to that, our affiliate is currently gathering data, so we do not have a definitive answer for you, Mr Sutherland. But moving around the province and being in various meetings and so on with some trustees, it seems like there has been minimal change. There may be pockets here and there, but we have not identified any great changes or any sweep that has occurred.

I would also like, while I have the microphone here, to answer your first question a little bit about co-operation. I am from Sarnia, Lambton county. About 15 years ago in Lambton they set up the Lambton County Centre for Children and Youth. It seemed to me to work very well to bring all the players together to have regular meetings—and co-operate. I know as a principal in that school system it worked very well in meeting a lot of the needs of our children that, for whatever reason, could not be provided by the school board directly. They put us in the touch with the people who could provide the services. Then there is the Children First document. I think that is the direction we have to go.

I will also point out that in northern Ontario it is quite common for sharing to go on because of the nature of the communities. Being smaller and more rural, it becomes a necessity to share. Maybe in southern Ontario it is not as

practical, but in my own personal experience in Lambton it has worked very well.

Mr Lewis: Commenting on the trustee elections particularly, I believe there were far fewer acclamations and an increased number of candidates in most boards across the province, which I see as a positive sign for education: increased interest and involvement. In response to tax revolt candidates who for the most part were spouting irrational half-truths and offering simplistic solutions to complex problems, the teacher federations went out of their way and put extraordinary effort into educating the electorate. I believe we were successful in doing that and the quality candidates were elected.

Ms Owens: I would like to respond as well, after having listened to some of my colleagues, not to that question but to your first one about co-operation. I think we believe incentives are not the only way we can deal with the issue of co-operation, and I would like to corroborate what my colleague from OECTA talked about. There are examples of excellent co-operative models. There is one in north-western Ontario right now. A board down in the southwest did a study on compensatory education. I do not think we have to start from scratch. There are processes out there. Where the government can be involved is by gathering in the data and perhaps developing some pilots and then working from there.

The Chair: We will move questioning to Mr Phillips.

Mr Phillips: First a comment, then a question. You taught them a lesson that time you went there, Larry. That was a good story of you at the tax revolt.

Mr French: I am never going back.

Mr Phillips: I would concur with Kimble's point. I observed that virtually all the incumbents did get back in, which is an interesting comment.

My question was on your recommendations on the grant numbers collectively, and I gather there is a difference of opinion, but it is basically inflation plus a little bit. Would that be sufficient to handle the contractual obligations of the boards without a shift one way or another between property tax and the provincial income?

Mr Coté: Right now I believe that would be the case. As you are probably aware, there are people who are in various stages of negotiations. We have two-year agreements; we even have some three-year agreements. Some people, for this coming year, are looking at that as the second year of a two-year agreement, so they are already settled and we know what their figure is. Others have settled next year as a one-year agreement and we know what their figures are. In our affiliate we have about 60% of our settlements already in for next year and the rest are negotiating. I do not know what the ones that are still negotiating are going to receive, so I cannot say if inflation plus 1% or 2% would be sufficient. For the ones that have settled, they seem to be in that ballpark, yes, generally, though there are some a little higher.

The Chair: We will move questioning now to Ms Ward. Have you completed your questions?

Mr Phillips: I completed the question. I do not know whether anyone else wanted to comment on that or not.

The Chair: Was there anyone who wished to comment on that question? All right, Ms Ward.

Ms M. Ward: Thank you. My question was for the OSSTF, something Ms Barkley said, and it is recommendation 7 in your brief. I just want some explanation and expansion. I think I sort of know intuitively, but could you tell me why destreaming is expensive?

Mr French: There is a series of pilot projects throughout the province on the restructuring of the transition years, theoretically grades 7 through 9, and there are a lot of resources going into the pilot projects because of the concern of teacher groups like ours and the other federations that this innovation be done properly. A lot of our members are worried that the solution might be worse than the problem, because thanks to the credit system and the triple levels, we were convinced that the dropout rate had been helped and that it had a dramatic improving effect on the dropout rate. We outlined this in this little brochure we gave out during the election campaigns. From a 30% completion rate in 1956 to 75% in 1986 has been a dramatic improvement.

Therefore, these pilot projects are doing it carefully, with a lot of curricular resources, a lot of training and a lot of personnel. Where they are succeeding, these are the conditions under which they are succeeding, and these are the conditions in which we think it should be implemented province-wide if it has a chance of succeeding.

This is enormously expensive, and we are attempting to get a handle on what the expenses would be, but if you extrapolated what Rosedale Heights is doing to make sure it works as a provincial model, over the 150 boards or so of the province I think we would be approaching something in the nature of \$100 million. This is not peanuts to make this thing work properly. The previous minister said she would ensure that it works properly, that there will be proper in-service training before restructuring and proper curriculum materials and proper class size before that happens. We think right now it is too expensive an option. I am not sure whether the other federations agree with this or not, but we are certainly convinced of that.

1150

The Chair: Thank you very much. Are there any other questions or comments on that? Mr Côté.

Mr Côté: Our affiliate did come out in favour of destreaming. The only thing I will say in addition to what Larry has already mentioned, though, is that we too said that contingent upon our support was that the three legs of the stool be there for that stool not to fall over. Those were in-service for the teachers, smaller class sizes so that the individual needs of the children can be met and provision for adequate learning materials to teach the children at the various levels in the one heterogeneous mix of the classroom. We support destreaming. We hope it can go ahead. We think there are very interesting things going on in the pilot projects that we will soon be getting final reports on, but the support has to be there to make it work.

Ms M. Ward: Just one quick question which either one of you could answer. It is very expensive right now because the pilot projects will be continuing to be expensive to implement also. There would be some decline, though, in those extra costs once implementation was pretty well under way. Would that be much of a decline, or were you saying that it will be a continually more expensive system than you have now?

Mr Côté: I think once the basic in-service is done with the teachers who are there now, and assuming that the pre-service that will be done in the faculties of education will allow for the methodologies and the strategies teachers will have to become familiar with to implement teaching to a heterogeneous group, that cost will be a short-term cost and then it will all be in place. When it is a brand-new thing and it is being done for a very few, then I suppose providing the learning materials is quite costly. When it is universal, then there will be an economy of scale there. As far as reducing the class sizes is concerned, that is a cost in the year or years in which you move to whatever number is appropriate, and then it is there and the costs would be constant but there would not be an increase that way.

The Chair: Mr Wiseman, I see your hand, but could I ask if it is a pressing need or is it something we can—

Mr Wiseman: It was not until they brought up the subject of destreaming, and then it became pressing. It is a very quick question.

Mr Christopherson: I did not get a chance to ask a question and I have a very short one. I wonder if I can get it in.

The Chair: Oh, certainly. I did not see your name, Mr Christopherson. Mr Wiseman, you have had an opportunity. I will move to Mr Christopherson.

Mr Christopherson: Larry, you mentioned in your comments that Caledon apparently swept aside the incumbents and it was all the tax-coalition group. I assume your association and maybe some of the others will be monitoring the activities there, the decisions they make and the impacts those decisions make on the community and education system, and I was wondering if we might be able to share in some of those analyses. With a tax coalition group which has a majority on council and can implement its agenda, I would be interested to see what kind of impact that has on a local community, positive and negative.

Mr French: I think everybody will be very interested in what develops. We are seeing more and more the need to take a look beyond just the trustees, the boards of education, and see what happens at the municipal level, because there is an overflow. A lot of the pressure on boards was generated by municipal councillors who were very unsympathetic to what the boards were doing, especially in taxation. The two are interrelated and we will be looking at both very closely. We would be glad to share it.

Mr Christopherson: Thank you. I appreciate that.

The Chair: I am going to arbitrarily close off questions here. I know some of you would certainly be receptive to discussing something after the meeting has been adjourned. I want to take the opportunity to thank all of

you who have come here this morning and made your presentation. Please convey our appreciation to Ms Barkley, who had to leave. Thank you too to the staff who came in support and those other peers who are also here to support. We really do appreciate it.

Mr Poste: If I just might be permitted one wrapup comment, I would like to emphasize our pleasure at being involved at this early stage in the formulation of the 1992 budget. I hope it was clear from our presentations that we

believe a strong public education system is critical to Ontario's future and we hope the report of this committee will protect the education of the next generation of Ontario's residents, who will ultimately be contributing to our economy.

The Chair: Thank you very much. The meeting is adjourned.

The committee recessed at 1156.

AFTERNOON SITTING

The committee resumed at 1540.

ONTARIO HOSPITAL ASSOCIATION
REGISTERED NURSES' ASSOCIATION OF ONTARIO
ONTARIO PUBLIC HEALTH ASSOCIATION

The Chair: I am pleased to welcome the Ontario Hospital Association, the Registered Nurses' Association of Ontario and the Ontario Public Health Association to present to the pre-budget consultations this afternoon. Thank you all for being here and welcome.

I will explain to you some of the basics. We hope you will present in about 10 minutes, one following the other, in the order you have selected for yourselves. Then after all your presentations, please join us at this table to respond to the questions the members may ask of you.

The order chosen is that the Ontario Hospital Association will present first, then the Registered Nurses' Association of Ontario and finally the Ontario Public Health Association. May I ask that before you begin your presentation you give us your names.

Mr Timbrell: My name is Dennis Timbrell. I am the president of the Ontario Hospital Association. Joining me in this presentation is Brian MacFarlane, president and CEO of Doctors Hospital in Toronto and chairman-elect of the Ontario Hospital Association.

We welcome this opportunity to participate in the 1992-93 pre-budget consultation process. This marks OHA's third appearance before the committee in this calendar year, which has been one of considerable change and challenge for the health care system, both nationally and provincially.

Several major currents have shaped discussion of health care and hospital services and funding. A new relationship between Ontario's physicians and the government has been established and a new working relationship is being created through the OHA/Ministry of Health joint policy and planning committee, as well as the hospital base program review exercise. We have also seen an enhanced attempt by the government to control drug expenditures and out-of-province health insurance payments. We regard these initiatives as positive steps towards the development of a more rational and planned system of health care delivery. The government's long-awaited consultation paper on long-term care redirection and the minister's clarification of the enhanced role for district health councils are further indications of the government's desire to forge a more co-operative partnership with all the parties involved in health care.

At the same time, this year has been marked by a pre-occupation on the part of government officials and health care professionals regarding the rising costs of health care delivery. This comes at a time of rising public expectations and demand for high-quality, efficient health care. It also coincides with a period of rising expectations on the part of hospital and other health care workers for greater monetary recognition of the value of their work. The pressure has been mounting steadily as a result of the current recession.

There are close to one million Ontarians on social assistance, and almost 10% of the workforce is unemployed.

On November 19 the Treasurer announced that he had a further \$670-million shortfall in provincial revenue to deal with, over and above his deficit budget, this time because tax revenues for 1990 were proving to be even lower than earlier projections.

The federal government has identified transfer payments to provinces as an area where expenditures can be reduced significantly. Through Bill C-69 last year, and this year's Bill C-20, the federal government has taken the first steps down the path that could see the elimination of transfer payments, at least to Ontario, for medicare by 1998. As the federal government reduces its share of health care spending, the greater is the burden on provincial governments to maintain the system and to pass the funding pressure down the line.

The growing problem of hospital deficits simply reflects that in health care, as in other sectors, it is the consumers and workers who ultimately feel the pinch. In this case, federal debt control policies combined with the recession and provincial government budgetary difficulties are resulting in layoffs of hospital personnel, bed closures and service reductions.

It was 30 years ago that Saskatchewan became the first province to introduce universal medicare, a concept which has taken firm root in Canadian society. There is now emerging a chorus of people saying that medicare as we know it is in danger. What is medicare as we know it? A lot of people do not really understand that what we call medicare refers to two pieces of federal legislation. One, in 1958, established hospital insurance and the second, in 1966, established comprehensive insurance for medical services.

Since then a number of additional things have been grafted on to that coverage, to a point where various levels of government have realized that the public expectations cannot be met because they are too expensive. As a society, we cannot afford medicare as we know it. We have to live within our means, and so the unanswered question remains, what sort of medicare are we destined to have?

What we think of as medicare is already a piece of history—a cherished piece, but none the less part of the past. When it was introduced, medicare was strictly an insurance plan. The government just signed the cheques. Today government is stepping into an entirely different role in its relationship with hospitals and doctors. That role now embraces strong efforts to manage the system through increasing fiscal controls.

There are a number of things challenging medicare. The most immediately pressing is the short-term economic situation that has created the current recession. A major consideration that has been driving discussions of the need to reform health care as we know it is our aging society. People are living longer and, as a result, require more health care in the course of their lives. At the same time,

research and technology are offering more, and more expensive, options for treatment and care.

We are faced with the situation of steadily rising health care costs and growing demand at a time when governments are saying we simply can no longer afford to fund either. The third and most serious threat to medicare in any form is the ongoing reduction in transfer payments from the federal government to Ontario and all other provinces.

Over the past few months we have tried to make it clear that for the upcoming fiscal year, 1992-93, we as a sector need an increase of 8.61%, or \$630.7 million, to maintain what hospitals do and how they do it today. That 8.61% does not take into account collective agreements yet to be negotiated with the Ontario Public Service Employees Union, the Canadian Union of Public Employees or the Service Employees' International Union, which taken together represent more than 60% of the staff of the public hospitals of this province.

Using our customary economic forecasting model—a model with which I think the Treasury and the Ministry of Health would tell you they find favour, at least in this form—that amount is divided into three components: extraordinary adjustments amounting to 2.05%, or \$150.5 million, to cover government-mandated expenditures such as pay equity and the pending new regulations relating to occupational health and safety; Ministry of Health formula adjustments totalling 3.21%, or \$235.04 million, and a general economic adjustment estimated at 3.35%, or \$245.61 million, to cover identified hospitals' committed costs, such as the collective agreements to which I alluded a minute ago.

That includes only the quantified cost of the 1991 collective agreements with the Ontario Nurses' Association and the Canadian Union of Operating Engineers and General Workers, not CUPE, OPSEU, SEIU or the many other unions representing hospital workers. Every 1% shortfall in the allocated increase next year could represent the equivalent of 1,700 jobs lost or a further 475 beds closed in the system. In addition, OHA can state that for every 1% increase in salaries and benefits for employees covered by collective agreements currently under negotiation, there will be a further increase in hospital costs of \$31 million.

This 8.61% is not a wish list that would enable us to do anything new or innovative or different. It simply represents what is necessary in order to continue to provide the same high-quality patient care for which Ontario's hospital system is known throughout the world.

Obviously the government has been equally frank about its own financial plight. The Treasurer has said that it simply is not possible to give us the increase we are saying is necessary to sustain the system in its present form. We understand that. Given our mutual recognition that we are caught between the proverbial rock and a hard place, what is needed is more direction and collaborative planning rather than arbitrary directives to stay within budget regardless of the consequences.

1550

There is a great deal of concern now on the part of hospitals, health professionals, government and the public about how to manage and plan the system. Hospitals them-

selves are working diligently, in an increasingly turbulent environment, to manage effectively and maintain the quality of the system. Modern management tools of utilization review, total quality management and continuous quality improvement are being used and refined to aid in that process. A new relationship between health care partners is emerging. It has the potential to be a positive one.

The difficulty, from the standpoint of the OHA and its hospitals, is that for several years now we have been in a holding pattern. Hospitals are willing, indeed anxious, to take an active part in reshaping the system, but clear direction from the government is needed.

Hospitals are seizing opportunities to rationalize their services and become more effective in many jurisdictions. Acute care hospitals in the Windsor area have been at the table with district health councils to discuss streamlining services there, by not just cutting beds but possibly shutting hospitals. Because of delays in the development of new and expanded services in the community and delays in the redevelopment and replacement of the existing facilities created by government inaction, the four acute care hospitals in that city are prepared to consider reducing the number of sites from four hospitals with five campuses to two. The co-operation and collaboration of community-based organizations are admirable, but this still amounts to being forced to make health policy decisions in the absence of clear policy and planning direction from Queen's Park.

Community hospitals and their volunteer citizen boards have an outstanding track record of dedication to the public interest. There are now clear indications that the government believes the public interest will be best served by containing health care spending while preserving universal medicare. Hospitals are prepared to do our part, if we could just get the goalposts to stop moving.

By any standard of comparison Ontario's hospitals are well managed. For example, administrative costs for health care in the United States are now fully 117% higher than in Canada, according to a recent article in the respected *New England Journal of Medicine*. Those administrative costs in Canada actually declined in real dollars between 1983 and 1987 while they went up 37% in the United States during that same period.

Hospitals are managed efficiently, within the limitations imposed on them. They currently have a mandate to meet the needs of their communities for care. The government has taken upon itself a mandate to change the public's perceptions of its needs. Hospitals volunteered to help change those perceptions, and our members are not being given adequate resources to do that, or to meet our primary mandate of delivering quality health care as it is currently defined.

Hospitals have a long tradition of grass-roots community-based development reflected in their governance structure, which relies on boards of trustees or governors who are all volunteers. Hospitals have, without exception, been established to meet community needs.

We must point out that physicians' practices are a major contributory factor to rising health care costs. It should be noted that Ontario spends more per capita on physician services than any other province in Canada. For

the fiscal year 1989-90 Ontario spent \$441 per person on doctors' services compared to \$350 per capita in British Columbia or \$288 in Alberta, according to Health and Welfare Canada data. The other provinces spend between \$200 and \$250 per capita on physician services. If Ontario were to spend only what BC spends, that would mean a savings of \$1 billion in the health care system per annum.

The Chair: If I may interrupt, I just want to point out that this is extremely important and so we are going to extend the time, but I am conscious of the fact that there are two other groups to present within a relatively limited amount of time.

Mr Timbrell: I understood the committee sits until 6 o'clock. Is that not so?

The Chair: That is true, but we do want to have ample time for discussion.

Mr Timbrell: I am trying to read as fast as I can and be intelligible, if I can find where I was.

Mr Wiseman: The bottom of page 8.

Mr J. Wilson: You see, Dennis, they are giving you clear direction.

Mr Timbrell: That is right.

That is one of the reasons the cap on physician payments that was included in the settlement last May was so important. That is also why the formal joint management committee with the Ontario Medical Association and the government was such an integral part of that agreement. Hospitals have been identified for years as one of the key areas where health expenditures are concentrated, and yet the less formal OHA/Ministry of Health joint policy and planning committee was created only recently. The next logical step is to have all three parties sit down together to plan the called-for downsizing of the system.

In her speech to delegates at our recent annual convention, the Minister of Health said: "We know that the experts say that at least 25% to 30% of everything we currently do in the health care system 'has no proven value.' That's \$5 billion in expenditures that the experts say is wasted." We are still waiting to find out who those experts are. Ms Lankin has made a provocative statement based on some research which apparently relates primarily to clinical procedures, not specifically to hospital operating costs. A study of cardiovascular bypass, endoscopy and carotid endarterectomy by the Rand Corp in the US is one of several pointing in that direction.

As former Deputy Minister of Health Martin Barkin said earlier this year: "On average, we are able to say that about 25% of what is done can be validated as absolutely indicated. Perhaps another 30% absolutely ought not to be done, even though it may be well executed. That is, the wrong thing was chosen, but it was done well... As much as 45% falls into a grey zone of decision-making."

Clinical procedures, like those mentioned above, which drive hospital operating budgets, are initiated by physicians. Hospital boards and administrators do not make those clinical decisions, although they are often forced to struggle with doctors over the use of restricted resources. OHA strongly supports the concept of utilization management through which hospitals work with physicians, other

health care professionals and management to scrutinize the utilization of resources, comparative lengths of stay, and other measurements to ensure resources are used effectively. But the evaluation of health outcomes of various medical procedures is still in the very early stages of development. It will require the combined efforts of physicians, researchers and others to make progress in this key area.

It must be emphasized that hospitals currently have very little direct authority to control decisions by physicians—for laboratory work or surgery, for example—that have an impact on each institution's operating costs.

OHA supports changes to the Public Hospitals Act, which is currently under review, that would mandate utilization management and strengthen hospital boards in monitoring physician practices.

In the mid-1970s there were 53,320 active and chronic beds in the province's public and private hospitals. To put that in context, in 1989, by which point relative to the period I have just alluded to, the population of the province had grown by more than 20%, there were 224 hospitals and about 51,000 active and chronic care beds serving a population of more than nine million. That number has dropped further since. There has been no net growth of hospital beds in that period, despite tremendous growth in Ontario's population.

In a recent survey by the OHA, we found that for the two-year period from April 1, 1990, projecting through to March 31, 1992, a further 3,292 beds will be permanently withdrawn from Ontario's hospital system and 4,329 full-time equivalent staff positions eliminated. Despite these drastic measures, the hospitals project combined deficits totalling \$178.7 million for this current fiscal year.

What has occurred on the hospital side has been a paradigm shift, because despite a growing, aging population over the past decade, hospitals' share of the global health budget has shrunk from 48.1% to 43.7% of provincial spending on health care. Hospitals have in that time found new and innovative ways of providing care to the growing numbers of people who come to emergency departments or through other channels for the care that rightly or wrongly they have come to want and expect.

Three important planning documents were released in 1987: Toward a Shared Direction for Health in Ontario, Health for All Ontario, and Health Promotion Matters in Ontario, known respectively as the Evans, Spasoff and Podborski reports. Those documents all called for shift in emphasis from treatment of disease to prevention of illness and promotion of health.

Like Building Community Support for People: A Plan for Mental Health in Ontario, they stressed that creating adequate community-based resources was a prerequisite to downsizing the institutional sector. But hospitals have been forced to deal simultaneously with pressure to downsize and to shift their focus, providing traditional care and community-based services without any ability to plan fully for even the current fiscal year, let alone for the longer term.

A 1988 Coopers and Lybrand Consulting Group survey of hospital CEOs and chief nursing officers found that

"74% of all respondents felt that the development of long-range strategic plans for their hospital within the context of government initiatives and directives was one of the five key future health service delivery issues."

The Ministry of Health's 1973-74 annual report noted that the guideline for active treatment beds was reduced from five per 1,000 to four per 1,000 population, and later in the 1970s it was further reduced to 3.5 per 1,000 population. Those guidelines have been reduced further, but with the freeze on new beds there are no minimum standards or guidelines today for an appropriate number of hospital beds or, for that matter, beds in nursing homes or homes for the aged either.

We can accept that smaller is better, but there has to be a limit to that philosophy. That is the message hospitals and trustees have been waiting to hear. At what point will cuts jeopardize the quality of care? In Ontario, we talk about having one of the highest rates of institutionalization of the elderly, without making a distinction between hospitalization or other forms of institutionalization. Without some goal in mind, we are shooting for a target that has yet to be defined.

The provincial government's consultation paper, *Redirection of Long-Term Care and Support Services in Ontario*, has now been released. For several years, the ability of hospitals providing chronic care to plan for the future has, in fact, been paralysed. The reform is needed because of changing government priorities but, in the meantime, hospitals and patients have suffered because of the slow pace of change.

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The long overdue Chronic Care Role Review, an integral part of the redirection process, is still not off the ground. Meanwhile, the announcement last June by yourself, Madam Chair, in your former capacity as Minister of Community and Social Services, that a minimum of \$37.6 million will be reallocated from hospital budgets to the government's care and support services division over the next five years has apparently been superseded. The recently released consultation paper states that after five years a minimum of \$37.6 million would be reallocated every year. We are seeking answers from government on this unexplained change.

More than 150 of the hospitals in Ontario offer a range of chronic care services, and every acute care hospital has its share of patients inappropriately occupying acute care beds. OHA is committed to ensuring that the new system functions as well as possible. That seems to fly in the face of the plan to redirect long-term care, with its built-in assumptions. Those assumptions, incidentally, are not confined to hospitals. They also extend to removing home care from the jurisdiction of public health units over the next three years.

Hospital funding has been in a state of flux for some years now. It has been in a holding pattern or reduced relative to overall health spending, while costs are escalating and hospitals take on more and more responsibilities. That is why there are hospital deficits. But as a sector, we have also been presented by default with the problem of rationing care, of making ethical decisions about who

should get what kind of care. We do not want to see those decisions made solely on the basis of balancing budgets.

The OHA's annual survey of public attitudes towards health care and Ontario's hospitals has been pretty consistent year after year. The people of this province are happy with the existing familiar health care system. The message identified in the Environics poll this year was that hospital spending should be the government's top priority, even above environment or education, and 86% of those polled said hospitals should not have to lay off staff, close beds or reduce services to balance their budgets.

In reporting this, we are the messengers. We understand that the government simply cannot afford to make its decisions based on public opinion, and we are doing our best to be responsible. OHA is working with government to address issues through the joint OHA/Ministry of Health policy and planning committee. Hospitals are working with government and district health councils to get a break-even budget point for this year and for next. Hospitals are changing, and changing very, very quickly. They are funding new methods of care and are active in health promotion.

OHA's Report on Health Promotion, completed in July, found that most hospitals fund health promotion activities out of their global operating budgets. Out of 186 hospitals that responded to the question, "Are you experiencing any obstacles in the implementation of health promotions/activities at your hospital?" 146, or 78.5%, answered yes. The three major obstacles to providing programs and activities for inpatients, outpatients, communities or employees are (1) lack of funding, (2) lack of adequate staff, and (3) lack of facilities.

Whose obligation then is it to reshape public attitudes towards health care—the government's or hospitals'? The message we get from the public is clear. The financial message we get from government is clear. And frankly the two messages are incompatible. We understand the need for change, and the firmness of the government's resolve, and we have been saying we will help you get there, if you will only tell us where you want to go.

At the same time, we are caught between providing what the public wants and what the government is willing and able to pay for. And hospitals have been given the additional responsibility of either changing the public's expectations of the health care system or simply changing a system that the public is happy with.

We have accepted the message that medicare, as it was first established, is no longer affordable. And while we find commendable the Premier's proposal to have a social charter included in the Constitution, if all it does is to enshrine an underfunded, underserved system, the words of the charter will have a hollow ring indeed.

What we require is a contemporary vision of accessible, portable, universal, comprehensive and publicly administered medical care that is also affordable and that we can work together to create. In the meantime the system is slowly eroding. We will continue to do everything humanly possible to shore it up. But clear vision and direction from government are badly needed, and needed now. We cannot do it alone, and we cannot be all things to all people.

The Chair: Thank you, Mr Timbrell, for that most comprehensive presentation.

I now ask the Registered Nurses' Association of Ontario to make its presentation.

Mrs Edwards: My name is Joan Edwards, and I am a registered nurse and a board member of the Registered Nurses' Association of Ontario. I am also the chair of the association's provincial finance committee.

It is a pleasure to be here today to participate in these pre-budget consultations. For your reference, Madam Chair and committee members, the presentation I will be making today is included in the red folder in front of you.

The Registered Nurses' Association of Ontario is the professional voice for registered nurses in Ontario. The association protects the profession's interests and integrity, while it influences and reflects changes in the profession and in the health care system.

RNAO promotes professional recognition of registered nurses and lobbies government and other organizations on issues that affect the wellbeing of nursing and client care. Membership is voluntary. Our membership represents every aspect of registered nursing in Ontario, from student to retired nurses, and includes staff nurses in the community and institutions and nurses in research, education and administration.

The RNAO, like you in government, is very concerned that decreasing federal transfer payments threatens the ability of the province to provide the five basic principles of health care. We have joined with six other partners through the Canadian Nurses Association to participate in the Health Action Lobby, known as HEAL. RNAO members have lobbied members of Parliament and expressed the concern that health is not addressed in *Shaping Canada's Future Together*. HEAL information is included in the red folder I brought for you.

Today I will be addressing two key areas of fiscal concern for the RNAO. They are, first, health human resources planning and, second, reallocation of funds.

On health human resources planning, the RNAO believes in the appropriate level of care given with the appropriate education serving the client. In the 1988 Meltz report, commissioned by RNAO, emphasis was placed on the necessity and importance of long-range co-ordinated manpower planning. We continue to believe there has to be better co-ordination between Ministry of Health planners, the health professions, employers and the Ministry of Colleges and Universities.

A proliferation of minimally educated individuals will not serve the best interests of Ontarians. In our current economic environment, had an independent institute for co-ordinated health manpower planning been developed, as recommended in the November 1988 Meltz report, the four groups just mentioned would have been able to anticipate, at least in part, our current situation and to proactively plan our human resource needs. As well, human resources planning, linked with the trend for increased care delivery outside the traditional institutional setting, would have prepared care givers for the changing demands of community practice.

The preliminary draft of the Orser report, entitled *Working Together to Achieve Better Health for All*, mentions substitution as a way to improve cost-effectiveness and quality of care, as well as to increase job satisfaction for the professionals involved. We would support using some of the substitution techniques outlined in the Orser report in individual health care settings. We do not advocate applying these techniques carte blanche across the province.

RNAO continues to believe in the appropriate level of suitably educated care givers to provide services. When the professional component is excessively diluted with less-educated and lower-cost personnel or volunteers, the quality and safety of client care may be severely compromised. For example, it may be completely safe and mutually beneficial to have a grandparent program for children, whereby older adults provide socialization, nutrition and mobilization assistance to children. But it would be courting disaster to have non-professionals assess and provide ongoing care and assessment for an acutely ill child.

Substitution provides an opportunity to free professionals to more appropriately use their skills and talents. However, substitution must not be a method whereby professionals are spread so thinly across the province that those who remain become totally frustrated with their inability to safely meet client needs, and subsequently leave health care to work in other industries.

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The second issue I would like to address today is that of reallocation of funds. RNAO is supportive of reallocating funds throughout the health care system. Involvement from nursing groups regarding the decisions surrounding reallocation of resources and funds is essential for maximum outcomes. The measures described by Mr Laughren in his November 19, 1991 statement to the Legislature have direct applicability to, and can be implemented among, health care organizations, institutions and professions. Freezing the purchase of non-patient vehicles and furniture and avoiding cosmetic building enhancements is a direct example, as is reducing and deferring capital spending. Moneys saved and interest earned in these areas avoid direct patient care cuts.

Duplication of services needs to be stopped. Cities and towns in close proximity, which have capital equipment operating undercapacity, is a waste. Having technicians and professionals waiting for clientele is a waste; yet other centres are overloaded, staff harried and clients disgruntled with the level of care and service provided. Balancing the workload across the system through rationalization of services and portability of employee benefits is one way to decrease the wastage and enhance care.

Utilization review must be taken seriously by health care providers and by consumers. Wise assessment needs to occur first to avoid a shotgun approach to laboratory testing, radiographic examination, drug prescriptions and interventions. Clients need assurance that their particular health care needs can be addressed without having every test the facility has to offer. Alternatively, humanistic decisions need to be made with compassion for those individuals with terminal diagnoses. Providers and consumers need

to avoid interventions which are purely academic or only prolong dying, rather than maintain or enhance living.

Education of providers and consumers is essential. Once again, savings gained here avoid cuts so that efficacious patient care is provided.

Our society has become increasingly litigious and consequently many health care providers seem to practise law along with medicine. A case in point is the situation where a terminally ill individual was transported by ambulance from one institution to another to confirm his diagnosis. The diagnosis was confirmed, and the client died on the return trip. The cost of the trip and the consultant's fees are minimal compared to the patient's loss of dignity and the family's grief. Why was this trip made?

RNAO represents a wide range of registered nurses throughout the province. Issues which are more focused and reflect the concerns of constituent groups within the association have not, in the interest of time today, been addressed. These issues include, and are not limited to, pay equity; long-term care; occupational health and safety, and workers' compensation. To best represent our collective membership, we have chosen to focus our presentation on the two issues, health human resources planning and reallocation of funds.

In summary, RNAO is supportive of provincial government action to retain and increase federal transfer payments. Our two main points today are:

1. Health human resources planning: The appropriate fit of skills and education among care givers with clients in the most realistic setting will ensure continued quality health care.

2. Reallocation of funds: Serious review of operating and capital expenses will allow for reallocation of funds from non-patient or client care uses to direct patient/client care delivery.

The Registered Nurses' Association of Ontario appreciates the opportunity to participate in this budgetary process. We welcome further interaction with this committee and government to clarify or expand on today's presentation and discussion.

ONTARIO PUBLIC HEALTH ASSOCIATION

The Chair: The Ontario Public Health Association.

Mrs O'Donnell: Good afternoon, Madam Chair, committee members. My name is Ruth O'Donnell. I am the president of the Ontario Public Health Association. Presenting with me are Audrey Danaher, who is the chair of our public policy and resolutions committee, and Peter Elson, who is our executive director. We do appreciate the opportunity to present our brief to this committee with the other deputations on health care.

For those of you who may not be familiar with us, the Ontario Public Health Association is a voluntary association of approximately 3,000 members, people who are involved in community and public health in Ontario. Our mission as an association is to strengthen the impact of those who are working in community and public health. We do that through advocacy, education and public awareness, among other things.

We are trying to focus our brief today on an investment in the creation of health. I believe you have a copy of our brief. An investment in community and public health is an investment in the future health of Ontarians. It is an investment in health protection and health promotion. It is an investment in keeping Ontarians as healthy as possible for as long as possible in the places where they live and work and play. We believe that this investment in prevention will pay dividends in a reduced number of accidents at work, on our highways and in the home. We believe that an investment in health promotion will support and nurture healthy communities, healthy environments and healthy lifestyles. Basically, health promotion is an investment in the creation of health.

We would like to make the point that investing in community and public health is not the same as investing in health care. Treatment and care is a little bit like term insurance: It works only when you need it. On the other hand, accident and disease prevention and health promotion are like a retirement savings plan that helps people to remain healthy and productive longer and to be active participants in the lives of their communities.

Ms Danaher: A systematic change in the allocation of resources for health in Ontario must take place. OPHA calls on the government of Ontario to reduce overall institutional and drug benefit costs by 3% in 1992-93. This would represent a saving of \$312,400,000.

We call for a reallocation from the following programs:

The drug benefit program: OPHA endorses the opinion of health policy consultant Michael Rachlis, the Provincial Auditor, Douglas Archer, and the Lowy inquiry that there are a number of ways of curtailing and capping the rising costs of the Ontario drug benefit program. These would include such things as rolling back price increases on drugs, eliminating the 10% surcharge on direct sales from manufacturers to pharmacists, reducing dispensing costs by setting prescription renewal guidelines and negotiating lower drug purchase costs through the economy of scale. This would result in an estimated saving of \$76.9 million. Ontario must take advantage of its combined purchasing power to reduce pharmaceutical costs, and dispensing fees must be minimized by extending the length of standing prescription orders.

The quality of treatment by medication can be improved by improving prescription practices, physicians' knowledge of pharmaceuticals and the recognition and use of the pharmacist as part of a multi-disciplinary decision-making team.

Regarding hospital expenditures, OPHA calls for a 3% reduction in hospital expenditures in 1992-93 from 1991-92 expenditure levels. This represents \$235,500,000.

The Ministry of Health must show clear and unequivocal leadership in the reduction of payments to hospitals. Further, this leadership must extend to an explicit indication of how these cutbacks should be made. Across-the-board reductions are not acceptable. Rather, they should be made in the context of relevant community need and overall resource assessments.

Cuts should start with the corporate structure and the reallocation of services based on demonstrated need, not

supply-side economics. To reduce staff and nurses is to cut the wheels off the engine without adjusting the generator. Physician utilization of hospital services and unwarranted procedures must be scrutinized.

OPHA shares the concern expressed by the minister in her address to the Ontario Hospital Association: "We know that the experts say that at least 25% to 30% of everything we do in the health care system 'has no proven value.' That's \$5 billion in expenditures that the experts say is wasted." This issue is too important and too expensive for the government to maintain a third-party relationship with health institutions. A viable partnership must be established which provides a means of prudently downsizing and rationalizing hospital use. We agree with the Minister of Health in her recent call for a Ministry of Health/OHA committee to be struck.

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We are also mindful of the extensive recommendations of the report of the British Columbia Royal Commission on Health Care and Costs, entitled *Closer to Home*. Among its many recommendations is included that "there be an annual global cap on payments to physicians by the medical services plan. This cap should be adjusted for changes in population and the general price level, but should not respond to increases in utilization or be adjusted for changes in 'technology' or other essentially unquantifiable factors."

The situation in which we find ourselves is not just a financial crisis; it is a systemic watershed. The current system cannot be contained.

A community-based discussion on the appropriate use of hospitals, practice guidelines and the present patterns of use and the overall policy of moving people and resources out of hospitals is fundamental to acknowledging and supporting this necessary and sometimes painful systemic change. Community consultation and education regarding the definition and determinants of health currently under consideration by the Premier's Council on Health, Wellbeing and Social Justice are critical prerequisites to public support for a more equitable distribution of public resources.

We remind you that for any cutback in the hospital sector, criteria must be established for how these cutbacks are made. Community and care giver support services bear the brunt of any hospital service cutbacks. Therefore, community consultation must become an integral part of planning for all service changes.

On November 20, the Minister of Health told the Ontario Public Health Association:

"We find it is the most cost-effective strategy to rally our strength and staff around community-based public health measures. It's better to protect and defend the population before an epidemic breaks out and hundreds of thousands in the community are dispatched to expensive hospital beds for treatment."

I put it to you that we have an epidemic of tobacco, alcohol and drug use, which places a phenomenal burden on our sick care system. We have an epidemic of preventable accidents. We have an epidemic of unnecessary medical procedures, such as caesarian sections, tests and drugs which add unnecessarily to our costs. We have an epi-

demic of premature deaths due to lung cancer, impaired driving and battered and abused citizens of Ontario.

OPHA fully supports current cutbacks in out-of-country fees and laboratory services and recommends further limits for criteria to reduce and eliminate unnecessary tests and procedures. Meaningful, equitable partnerships working together—hospitals, community, community health service providers, unions—are the key to systemic change.

Mrs O'Donnell: The second recommendation the OPHA places before you is to proceed with the implementation of the Mandatory Health Programs and Services Guidelines, which were in fact a government document passed originally in 1985 and revised and endorsed in 1989. It will require \$60 million in program funding in 1992-93 to fully implement the mandatory standards established for Ontario's 42 official health units.

These mandatory standards are designed to meet four goals: that Ontarians will have the opportunity to attain an optimal level of physical, mental, emotional and social development appropriate to their life stage; that all the people of Ontario will have the opportunity to adopt and maintain health promotion practices for themselves, their families and the community; that communicable disease will be reduced or eliminated; and that the community itself will be a health-supporting environment in which people will be protected from adverse health consequences of exposure to toxic, hazardous substances and conditions in homes, public places and the workplace.

The third recommendation is a clear definition of the responsibility and accountability for public health. The mechanism in place for financing these provincially mandated programs through cost sharing with local and regional governments is presently a barrier to full implementation of the core mandatory services.

I think the buzzword these days is "disentanglement," which is currently the subject of discussions between the Association of Municipalities of Ontario and the government of Ontario. This is a matter of utmost concern to the OPHA and it must be addressed. Political and fiscal accountability for public health must be resolved. If the current situation continues, implementation of the mandatory programs and services will be slowly strangled by ever-decreasing municipal dollars.

Mr Elson: The fourth recommendation is to improve and expand community health centre services.

Some \$65 million is needed in 1992-93 to improve and expand community health centre services. Community health centres provide a crucial integration of clinical, prevention and promotion services. Community health centres are an important reflection of community support and a commitment to defining health in a broader context. Planned expansion of community health centres should be supported and existing centres must have the capacity to respond to their community needs.

Recommendation 5 is for implementation of long-term care reform. Four hundred million dollars is needed in 1992-93 to implement long-term care reform in Ontario.

OPHA fully supports the long-term care initiative and wishes at this time to bring your attention to the need for

support for informal care givers, the hidden support network within long-term care. OPHA calls on the government of Ontario to recognize the financial burden carried by these individuals and to provide a mechanism for direct subsidy and/or support credits.

Recommendation 6 is to give kids a chance: fight the tobacco epidemic.

OPHA calls on the government of Ontario to increase tobacco taxes by 3 cents per cigarette or \$6 per carton as one component of an eight-point comprehensive tobacco strategy to reduce cigarette consumption by children. This is a campaign which is supported not only by the Ontario Public Health Association but also by a number of other tobacco-cessation-related organizations. The net increase in tobacco tax revenue is estimated to realize \$400 million. That takes into account the decreased consumption levels.

Relative to other provinces, Ontario is in danger of having the most affordable cigarettes in Canada. Research has shown that a 10% increase in the price of tobacco will result in a 12% reduction in cigarette consumption by teenagers and a 4% reduction by adults. One third of all smokers sustain a smoking-related illness, with tremendous human, productivity and health care costs. This was reiterated in the recent Tobacco and Health report released by the chief medical officer of health for the province of Ontario earlier this month.

Mrs O'Donnell: In conclusion, I would like to call your attention back to our original statement that our major concern is with the creation of health investment in the creation of health. The cost of not making these investments will be a health cost profile which will continue to be uncontrolled. It will be driven by supply, not demand, by technology rather than human need, by sickness rather than health and by institutions instead of communities. Thank you very much.

The Chair: Thank you very much, all of you, for your presentations. I am sure the members will have questions they wish to ask. I might add that you should feel free to refer any questions to any of the staff or other colleagues whom you have brought with you. I will begin with Mr Sutherland.

Mr Sutherland: It is a pleasure to have all the groups here today. It is interesting and we have heard some diverse comments. I would certainly think that all of you are very sincere in your concern about delivering effective health care in this province.

I want to pick up on a point that came out of this morning's discussion regarding my riding. We had the teachers' federations talking about services that had been cut by the board and, more particularly in my riding, speech services. I commented at that time that it was quite interesting that when I had a meeting in my riding trying to solve this problem, a director of the local hospital said it was the first time in 11 years that all the players who were providing speech services to school-age children had been in one room together to talk about that.

Bringing it more in tune with the presentations we heard here, Mr Timbrell, you talked about the public health mandate or health education mandate of hospitals. We

know we have the public health and that nurses are involved with that, particularly the registered nurses. I guess what I want to know is, where is the co-ordination of the services when you take specifically that area of health education or accident and disease prevention? I am not clear on this. Who is directly responsible for it, or are all of you responsible for it? How do you co-ordinate all your activities?

1630

Mr Timbrell: One of the reasons we have district health councils in the province—they have now existed for about 16 or 17 years since the first of them began—is to bring to one table all of the players, if you will, in the health care system, whether they be in the public health sector or the providers or the consumers or the trustee or the administrative side of the institutional sector. It has always been the intention—to be honest, I am not sure it has worked uniformly well across the province—that this is the mechanism.

That does not always bring in the social service or the educational or the other voluntary agencies. You might as well ask, where was the hearing society? Where are some of the other voluntary groups? They are out there as well. But there is a mechanism. Mrs O'Donnell is a former member of the district health council for the county of Brant and she could perhaps add to that.

Mrs O'Donnell: My comment, before I speak to the health councils' role, is that I feel each of us and each of our associations represents people who have a mandate in different parts of health care. The primary mandate for health protection/health promotion rests with the official public health agencies. The primary responsibility for treatment, diagnosis and health care rests with the hospital sector.

I feel it is important that we co-ordinate better than we have done in the past in order that we are not attempting to duplicate the services that one of the others does better. The health councils are providing that kind of co-ordination in our communities. I also feel there is something else happening that is being promoted from our Ministry of Health, and that is to try to get the attention to some of these health services moved into other community-based components. I would pick the community health centres as a perfect illustration of a co-ordinated service centre where the diagnosis and treatment of illness are provided, as well as there being a health protection/health promotion component, moving into health lifestyles promotion. I think we can move towards a more co-ordinated effort as we try to hone the system a little more and make it more fine-tuned than it is now.

Mr Timbrell: I just want to add, in answer to Mr Sutherland's question, that this is one of the reasons we are concerned about the apparent intent of the Ministry of Health to force hospitals and some communities to stop being the administrators of home care programs or home oxygen programs, ambulance services in other communities, to force the public health units out of the provision of home care services. At a time of fiscal necessities and the

need for the system to be better co-ordinated, this is no time to start driving it further apart.

Mr Sutherland: Could I get some comment from the Registered Nurses' Association of Ontario?

The Chair: Certainly.

Mrs Sullivan: Did the minister not just do that, suggest that public health authorities should not be involved in the delivery of long-term care?

Mr Timbrell: That is the point I am making, that the ministries are in our view inappropriately trying to compartmentalize at a time when there is, if anything, a need for more co-ordination and more co-operation, not less.

The Chair: Would you like to comment?

Mrs Edwards: Certainly from our perspective, we see our role and our mandate not in terms of global facilitation of co-ordination, but more on an individual client level of ensuring that available resources, both institutional and in a wide variety of community agencies and settings, are co-ordinated and brought together for a particular patient or a particular client.

Mr Sutherland: May I ask one more question?

The Chair: Very briefly.

Mr Sutherland: Thank you. We also had quite a range in terms of where health care funding should be going in the next budget year. The hospitals were saying we should put in—I believe it was 8.6% that you have in your document here. The public health association said that, if anything, it should decline. Given the nature of the tight fiscal situation, and the fact that everyone is concerned about health care, I would like comments from each of you on how we manage the change that is going to be occurring in the health care system. I think we all agree that change has to occur. Maybe this is more supplemental to my first question: How are we going to manage that change? We said we have to co-ordinate better than in the past. What steps are in progress right now from your organizations that are helping to facilitate that change, to facilitate better co-ordination than we have had in the past?

The Chair: Is that question directed to—

Mr Sutherland: All three.

Mr Elson: On behalf of the Ontario Public Health Association, I would like to mention two particular initiatives that we have under way at this time. Earlier this spring we had a provincial workshop on creating linkages among hospitals, community agencies and public health units. That was attended by almost 100 individuals from hospitals and community agencies. As a supplement to that, every single delegate at that conference indicated he or she would be prepared to participate in a local forum to address the issue of what kind of relationship currently exists among those three sectors and what needs to be put in place to help it become a better working relationship, independent of a particular issue that would have to be dealt with.

We are negotiating at the present time through the Association of District Health Councils of Ontario to identify three or four pilot communities that would be interested in

engaging in such a process. That is one particular initiative that we have.

Mrs Edwards: The RNAO sees itself as a facilitator and as a link or a bridge between the needs and beliefs of the institutional setting and the needs and beliefs of community settings. We do not see a particular functional role for ourselves in terms of setting or determining policy in changing the allocation of health care spending. Our mandate is to support the need for providing a health care provider who has the appropriate educational and experiential preparation to provide the care that is required in either an institutional or a health care setting.

An example of that is the much earlier discharge of patients from an institution to the community and ensuring that the providers, those professionals and others who are caring for those individuals in the community, have the appropriate preparation and experience.

Mr Timbrell: I wanted to say a few words about change. When we sit and talk about change in the health care system, it amazes me that the expressions of interest on this issue either assume that there has been little change or that we are starting from zero. I guess, like Mr MacFarlane and Mrs O'Donnell, I have been involved in health care for a lot of years. I can remember when hospitals represented about 52% of provincial government spending on health care, and it is now just over 43% of provincial government spending on health care. In the last decade provincial government spending on everything from public health/ to drug benefits to out-of-province claims to OHIP and on and on and on went up as the proportion of provincial government spending on hospitals went down.

When we talk about change in the hospital system, we are not talking about something theoretical or something that may happen next week, next month or next year. It is happening today. In the last decade, while the population of Ontario went up 20%, the number of services provided in hospitals on an outpatient basis and in the community in either hospital-based outreach programs or community-based programs run by hospitals went up almost 100%. When we talk about reducing the relative levels of spending on hospitals, I am sorry, but the reality is that you do that and we have to accelerate the rate of change. For us, change means closing more beds and letting more staff go.

There was a suggestion here today that we could cut the 1991-92 allocations by 3%. The 1991-92 allocations started the fiscal year being a full five points below what the system needed just to maintain what it had a year ago. By the time the budgets were submitted by the hospitals, they had already worked out of the system about 2.5% of that gap, and the only way you work it out is by tightening further, leaving 2.5% still to be dealt with in the current fiscal year. Then you add to that the 8.5% we are projecting is required next year, not for any additions, not for any embellishments, but just to pay the negotiated contracts with ONA and CUPE and deal with the ministry's own mandated formulas and the government's mandated programs. That is a 14-point gap. We know from managing the system that this is about 24,000 more jobs and about

6,650 more beds in one year that would have to come out of the system.

1640

Ms Danaher: I think we have to be clear that beds do not equal health care. People are interested in the basic determinants of health, the things that create health: adequate housing, adequate income, adequate nutrition, a positive lifestyle. Health is not medical beds, and we have to take, I think, a very firm stand on that. We want to prevent people from getting ill, not deal with them when they are in need of high-level, expensive care. It is better for the people of Ontario and it is, as well, more cost-effective. Health care embraces a very broad concept and I think we have to really keep that in mind. We have to take a firm stand in making these cuts.

The Chair: Thank you, Ms Danaher. We will move the questioning on to Mrs Sullivan.

Mrs Sullivan: Thank you, Madam Chairman. As you know, this is a new approach to dealing with pre-budget consultation and while I think it is valuable to have the three groups together, we may in fact be a little short of time in terms of the number of questions we want to get on. I hope the Chair will bear with me.

The Vice-Chair: Just before you begin, I think what we will do is try to keep rotating, so there may be an opportunity to ask a second or third question.

Mrs Sullivan: Are you saying I can ask only one question of one organization then?

Mr J. Wilson: Ask a long one.

The Vice-Chair: No, you can ask questions, but I am saying we will keep trying to rotate. Okay?

Mrs Sullivan: Okay. I have questions that are specifically budget related—which is why we are here—for each of the three organizations, and I think it is important that they be on the table.

I am interested in the public health association's recommendation of a 3% reduction in hospital expenditures for the next fiscal year. I wonder how you reached that conclusion and how you reached the conclusion that it could be done without reducing staff and nurses, which, as you say, is to cut the wheels off the engine without adjusting the generator, when 70% of hospitals' costs are staff costs. In fact, the savings which you suggest would be accrued by that decision do not necessarily mean savings in the end, because facilities or services would have to be put into place in another setting. Could you respond to that?

Ms Danaher: Yes. Services do have to be put into the community if you are cutting costs in the hospital sector; otherwise you are going to have a situation such as when psychiatric hospitals were closed and we had patients dumped in the community because there was inadequate support. You have an initial situation where you have to cut costs, but because you are doing preventive work, you will get savings in the end.

The other point is that the group costing the system a lot of money is physicians. Physicians received a very substantial increase in their salaries this year, and you are

right, I do not think this should be on the back of nurses or other health care providers. Physicians are the ones prescribing drugs and treatment and expensive tests and that is where there is a significant overlap in services. I think that situation needs to be addressed. There is also an oversupply of physicians in this province. I think that needs to be looked at as well in terms of cutting the numbers of places in medical schools, for example, and reducing physician admission privileges in hospitals.

Mrs O'Donnell: We realize the change that is proposed in health care cannot happen overnight; it cannot happen in one year. It is going to take a long time to turn around the system that has conditioned our population to regard the hospital as the place to go whenever there is any health care need whatever. What we feel has to happen is a complete change in the style and the method of delivery of health care and that we reserve our hospital services for the people who truly need them most desperately. It should be where the severe, acute care patient must be looked after. We have already started in the health care system. I agree with Mr Timbrell that there has been a lot of change already established and we have started moving people out of hospital, earlier discharge, having care in the community, recognizing that many things can be done on an ambulatory basis. My hat is off to the hospitals for what they have accomplished there. I think they have done a marvellous job. It is just that we have to do a great deal more than has been done to date.

One of the issues in terms of hospital usage has to do with the gatekeepers of the hospital and I endorse my colleague's point that admission to hospital is medical. Only a physician can admit a patient to hospital and discharge a patient from hospital. We have to change some of those practices. If it has to be done by reducing the budget, it may be the cart before the horse, but that is the only way we are going to make true change in the system and stop using the hospitals the way we have been doing.

Mr MacFarlane: The hospitals are very much community resources. They are not just institutions providing bed-based care. There is a lot of outpatient care in hospitals. Hospitals have used their global budget resources to expand into their communities to help provide care that the other sectors have not funded. I would like to point out that alternative services such as those being suggested are not necessarily less costly services either. It is virtually impossible to provide 24-hours-a-day care in a home setting at less cost than in a hospital setting.

Mrs Sullivan: I have a question of the Ontario Hospital Association relating to allocations for next year. I am going to do a preamble, so you may want to expand upon parts of it.

The Minister of Health has said there is \$5-billion worth of waste in the system. To my knowledge, she has not identified where that waste is or what standards she feels ought to be put in place to ensure that waste is eliminated.

None the less, we know that hospitals have certainly had a very difficult time this year with the number of bed closings that we have been seeing. We also know that transition funds for this fiscal year have not flowed; that

pay equity funds have not flowed yet for this year; that the pay equity and other government-imposed costs, not only from this government but of course from the past government, have not been met completely in this year's transfers. Those pressures will continue, but there will be an additional pressure next year relating to the Workers' Compensation Board increase.

There may also be some increased pressures relating to the cap on doctors, in that hospitals, to ensure services, may have to make specific arrangements with doctors themselves for those services. We also know the Treasurer went before the OHA and indicated that transfers would be lower this year than last year. If those transfers are perhaps at the inflation rate or 1%, 2% or 3% above inflation, which appears to be some of the general hinting that is occurring, how will hospitals cope?

Mr Timbrell: Right now, all hospitals are involved with their district health councils and with staff of the ministry in reviewing, in some cases, recovery plans for this current fiscal year and, in all cases, starting to examine the budgetary requirements for next year. I wish I had heard rumours that we were going to get inflation or thereabouts. In fact, the rumours we keep hearing are in the order of 2% increases.

Mr Phillips: Probably about 6%, I would think.

Interjection: Between 0% and 3%.

1650

Mr Timbrell: At any rate, I have not heard those rumours. I guess it leads to a very critical point and that is, we need to know well before the start of the fiscal year what the allocations are.

In February of this year, the Treasurer announced an overall increase in spending for hospitals of 9.5%, of which 6% was for an inflationary adjustment. The other 3.5% deals with transitional funding issues of growth and equity and support for life-support programs and small hospitals and on and on, plus pay equity. We do not have the details even yet, and we thought we would have them this week. We were just told this morning it will probably now be mid-December before we will have the final allocations. That is no way to run a railroad, two-thirds of the way through the fiscal year. It is better, mind you: Last year the hospitals got their final allocations on April 2; in other words, at the beginning of the next fiscal year. So it is an improvement by a few months, but a marginal one.

We keep saying, and I think the Minister of Health and the Treasurer understand, that we want to be responsible managers. We want to do it as well as we can, but if you do not give us the tools, if you do not give us the information until almost the end of the fiscal year, how the devil are we supposed to effectively operate what in most communities is one of the largest businesses or employers in that town? We cannot, is the short answer.

Mr J. Wilson: I would like to begin by saying this is a very strange process. I am not a permanent member of this committee, but I am the Health critic for the Ontario Progressive Conservatives, and to have three groups in a row without questions, three groups with at times diametrically

opposing views, is a very strange way of doing things. It leads me to believe that—

Mr Wiseman: It was his idea.

Mr J. Wilson: Whose?

Mr Wiseman: Norm Sterling's.

Mr J. Wilson: Well, Norm sometimes has some very bad ideas and I will be chatting with him about that, because I think it plays right into the sort of divide-and-conquer strategy that the government is conducting. You will notice, when I asked the minister in the House today about the hospital bed closings and the overall comprehensive plan, her answer was that we are all scaremongering. This government has done an excellent job, and I have seen it today: the public health nurses against hospitals, against administrators.

I assume your brief refers to renovations done by administrators and that sort of thing. It reminds me of people picking on MPs' salaries, which will not in any way control the federal deficit one bit. You want to take money from the institutional side of the equation. Where is the mention in the brief about nurses and the fact that a full cheque was not sent to the hospital boards to pay for pay equity, yet the minister got credit for it? She also got credit for nurses' salaries but did not send the cheque. It is downloading. I am surprised at the restraint you have shown in the language of your briefs.

Having said that, I hope you realize—and every day we ask her questions—she is talking in the House today about the monitoring of the system of hospital beds that the auditor talked about having nothing to do with the cuts in beds. It is the most amazing answer in the world. She is dividing and conquering the health care community, and yet at the same time she sets up these wonderful committees saying how co-operative everyone is, and every day we hear that everybody is working together. That is just not true. It is a bunch of baloney.

The Vice-Chair: Mr Wilson, are you coming to a question?

Mr J. Wilson: I do not want to read the newspapers any more, about one health care group pitted against another, when the blame rests with the government and the lack of a management plan. But having said that—

The Vice-Chair: Mr Wilson, I have been lenient in allowing you a preamble. Could you please place a question.

Mr J. Wilson: Sure. Having said that, I have a dozen questions. What I would like to know, if it is possible in a clear statement is, what do you need from the government in terms of clear direction? We have heard Mr Timbrell and, I think, each of the groups talk about it. What exactly do you need at this point in history in terms of clear direction? What should the goalposts be, and the new standards?

The Vice-Chair: Maybe we could start with the nurses' association and then—

Mr J. Wilson: Maybe you should start with Mr Timbrell, because I am using his language.

The Vice-Chair: I was just trying to rotate it by organization.

Mr J. Wilson: Now that we have you all divided and conquered, we have to decide what to do.

Mrs Edwards: I will move forward then, because I do not feel, from our perspective at least, that our goal is to come here today to divide and conquer. I think very much, and I speak for the RNAO's perspective, our goal is to ensure that we are able to provide a level of care—obviously from our perspective we are focused on nursing care—that is appropriate for the type and nature of client need, and we are not wishing to make jabs at or take sides with either the community-based agencies or institutions, because we provide a professional level of care across all of those.

I certainly hear what you are saying in terms of lack of financial support for issues that have had major financial ramifications in both institutions and the community and certainly on nurses. However, in terms of what it is we are looking for, we are looking, from a non-financial perspective, for the work we are doing with OPHA to promote and support the position of the nursing profession within the health care environment; certainly the work we are doing, as many other women's groups are doing, with respect to pay equity. And we are looking for a clear delineation, as I mentioned in our brief, regarding substitution in terms of being able to provide an appropriate level of care for patients, for clients. We view ourselves very much in many ways as a bridge.

Mr Timbrell: Essentially I think, from the perspective of hospitals, we need to have some clear indication from government of the level of services it is prepared to pay for, and that can be expressed in several ways. At one time it was expressed in terms of so many acute-care beds per thousand population. In the early 1970s it stood at five beds per thousand. That went down to four beds per thousand in the mid 1970s. By the late 1970s it dropped to 3.5 beds per thousand, and in recent years there has been no standard at all. It has been everybody for themselves. Now, with the more recent development of things like resource intensity, weights and others, it is now more common to talk of so many patient days per thousand population.

Once a reasonable standard is posted, you work back from there, region by region, on the implications that has for the distribution of various services in and among hospitals at the primary, secondary and tertiary care level, and the implications that will have for rationalization and maybe the closure of some hospitals. In the end, you are right, no minister can escape the ultimate responsibility for the decisions, but also no minister can escape the need to establish a framework in which the objectives are clearly defined and we all know what we are working towards. The way it is now, there are no such standards, there are no clearly defined sets of goals or objectives and it is very much every hospital for itself and every community for itself.

Mrs O'Donnell: Speaking from the perspective of the Ontario Public Health Association, I do not know how to describe it in detail, but we feel the health care system has to be recreated. We have spent 30 years since the inception of medicare persuading people to use a system that is med-

ically modelled. I believe we have to turn that around. We have to reduce the dependence of people on the medical model to increase their sense of personal responsibility for health. We need to do as much as we possibly can in the community, sometimes because it is more cost-effective. Sometimes it may cost the same, but the quality of life is a whole lot better when people can be outside an institution rather than inside an institution, and I think, most important of all, we have to redistribute the resources in a way that will address the determinants of health. I guess it is the old analogy, to prevent people getting pushed into the river upstream so that we can stop pulling them out of the river downstream, which is very costly.

Mr J. Wilson: I would like to ask a question about medicare universality. I will try to make my question succinct, but there are a number of user fees, for instance, in the system now. Every day you read about people worrying about user fees one way or the other. We have some hospitals, some 20% of whose income comes through various forms of user fee, and despite what the government says in the long-term care reform documents, we talk about user fees to some extent for some services.

Do you see a greater role for user fees? I notice one of the briefs talked about waste although it did not exactly say this: My belief is that you are entitled to a second opinion, but when you want a third, fourth and fifth opinion, you pay for it. We do not have a lot of time, but can you briefly tell us—you have probably batted around ideas on user fees and where they are appropriate, the way people, for instance, are paying a flat rate for ambulance services who clearly cannot afford to pay that flat rate for ambulance services. The government will not admit it, but there are user fees in the system now, and I do not think they are appropriately placed or tested. It is a loaded question; sorry about that.

1700

Mrs O'Donnell: On principle we are opposed to user fees, because it has been demonstrated repeatedly in the United States and Alberta that user fees deter the poor, the people on fixed incomes, the elderly. I do not deny that user fees could be established on a selective basis.

Mr J. Wilson: They are already in the system.

Mrs O'Donnell: Yes. The difficulty is that it often costs more to do it selectively than it does to—

Mr J. Wilson: Let me just clarify. I am not talking about the \$5 you charge someone to walk through an emergency room, because I figure it costs \$6 just to collect the \$5; I agree with you there. Should people be entitled, though, if they can afford a particular service, especially now that specialists are leaving with the cap? Maybe the specialists would stay if people could seek that person out in the private sector.

Mrs O'Donnell: That almost inevitably results in two-tier service, because the people who can afford it buy more, and guess where the professionals are going to focus their attention when it comes to a choice between somebody who cannot afford it and somebody who can. So we are opposed to user fees.

The Chair: Are there any other responses to that?

Mr Timbrell: Let me just say you are right, there are certain user fees in the system now. There is a user fee for everyone in an extended-care bed, whether he is in a home for the aged, a nursing home or, after 60 days, in a chronic-care facility. There are the fees for ambulances and various other ones. We hear the government is thinking of \$1 or \$2 per prescription under the Ontario drug benefit plan.

Mr J. Wilson: Even parking in the hospital is a user fee. It is over five bucks to get in.

Mr Timbrell: Do not forget that the parking facilities in hospitals are not paid for by the government. Hospitals do not get a dime from the government to build or maintain any parking facilities, so whatever fees you pay are there to support.

It is worth reminding ourselves that there were some myths built up about the funding of medicare 25 years ago that persist to this day. For example, people used to talk, when I was in another role, about 50% of medicare being paid for by the government. The federal government never, ever paid 50% of the cost of medicare. The government of Canada paid for 50% of certain defined services within medicare. They never paid for nursing homes, they never paid for ambulances, they never paid for public health, they never paid for the drug benefit program, they never paid for assistive devices and on and on. In fact, by the time the government of Canada in 1977 got around to passing the established programs financing act, federal government funding was already down to about 42% of total spending. With the enactment of EPF and the change from what was first announced in early 1977 to what was enacted in late 1977, the decline in federal government spending on health care has been going on for 15 years or more.

As I said in our brief, the reality is that the government cannot afford to pay for what we popularly or generally think medicare was or is. What medicare was is gone, and I agree with Mrs O'Donnell that we are talking essentially about rebuilding medicare.

Mrs Edwards: I would like to simply, hopefully, answer Mr Wilson's question. The RNAO believes, in conjunction with OPHA, in accessibility for all individuals for the appropriate level of health care and the appropriate resources they need. There may be activities above and beyond that which individuals, in their wisdom, could elect to have, but we are absolutely adamant that all individuals within the province have the option and the ability to receive the appropriate level of health care they require, be that in the institution or in the community.

Mr MacFarlane: Just a brief comment about user fees. As you know, in the chronic care hospitals there is the co-payment aspect, which is a user fee. As Mr Timbrell said, the same patients are occupying acute-care beds, and acute-care hospitals are not allowed to charge the co-payment. So the charges are related to the type of facility rather than the type of patient, and that seems inconsistent.

Mr Christopherson: I would like to thank the presenters for coming forward today and assisting us in the budget formulation for 1992. I would also like to say, quite

to the contrary of what Mr Wilson has suggested, that not only is this not a divisive process, I think it is actually a process of trying to find the kind of common ground we need if we are going to find our way out of the difficulties we have. I am acknowledging it in the context of the responsibility of the opposition parties to do the job they are there to do, but I think it is easy for any of us to be finding differences, focusing on those and making the gaps even bigger.

Mr J. Wilson: That is crazy. That is not what we are doing. That is exactly what you are doing.

Mr Christopherson: Madam Chair, would you please ask Mr Wilson to refrain.

The Chair: I am sorry, I was involved in something else.

Mr Christopherson: I think it is important and incumbent upon all of us who have a responsibility to come together to try to find that common ground as much as possible. We owe a debt of thanks to you people who are prepared to take a chance, to come forward with a new system, a new way of trying to do things, sit at the end of the table like this and dialogue with us. I want to thank you for that. I hope it is the first step of an awfully long path that takes us to the goal we are all seeking.

I would like to ask a question that is indirectly related to the development of the budget but has a lot to do with accountability, responsibility and the whole issue of devolution of decision-making to the community level in terms of health care. It is a simple question. There is some talk now about the possibility of having hospital boards and district health councils elected as opposed to the appointment process, where members would literally run for office as they would for a school board. I would be most interested in the thoughts from the different perspectives represented today on whether you think that would be a benefit, no change or a wrong step.

Mr J. Wilson: What has that got to do with money? You are supposed to keep him on track.

The Chair: The direction of the question may well come out in the end result.

Interjections.

The Chair: Mr Wilson, you were provided the time to ask your questions. Is there anyone here who would wish to answer that?

Mrs O'Donnell: I cannot respond from OPHA because it is not something I have heard discussed at OPHA by OPHA members, although I am certain it has been a topic among a lot of them in their home settings. If boards of health and/or district health councils were to be elected, then obviously the intent would be for them to be accountable for public funds. One would presume that along with the responsibility for the disposition of those funds would come the authority for managing those funds.

From a personal point of view, having been on a health council for six years, I think that would put the responsibility and the authority very close to the public pressures that would fall upon the people in the local setting. That is not altogether a bad thing, but it could make it a very

difficult thing. They do not have the distance that has in the past belonged to the government. Queen's Park is far enough away that one can say all sorts of nasty things to Queen's Park and get away with it. I think it would require a lot of time, thought and very careful development if that was the route selected.

Mrs Edwards: I do not have a comment from RNAO's perspective.

Mr MacFarlane: I think what you are looking for is people with the right skills for hospital boards. Most hospitals clearly define the kinds of individuals they need to represent their community, with a mix of the multicultural community, the business community and so on. It is very difficult in an election process to get the kind of mix you need.

Mr Timbrell: It is hard to imagine how introducing partisanship into the provision of hospital services or health services is going to be seen as an improvement. One would also want to remind oneself that school boards started off being appointed bodies of municipal councils. Then they got their independence and were elected and then they got the right to tax. Unless it is part of the government's long-range plan to have locally elected hospital boards granted the right to tax, which is an inevitable evolution of free and democratic elections, then I suspect it is not an idea that is likely to go very far.

1710

Mr Phillips: To get to the heart of the matter, there is no doubt that we are in a financial crisis in health care. There is no doubt also that it is the hospitals that are going to bear the brunt of the problem over the next year or so. The doctors have a six-year deal and they will not appear here for six years. They are in a stormproof shelter, fully sheltered from this stuff. I agree with the comments you made that community-based care is extremely important. You cannot close the hospitals until you have that. That has to be put in place, and I agree totally.

The challenge we face is for the next 12 months. We are talking the next 12 months really, right now, today. As I say, you are going to be the scapegoats. Every government looks for somebody else to blame. It is just the natural way things are. I see it happening right now. There is a public debate about who is to blame for the health crisis and the finger is starting to point at you guys just because that is convenient. The doctors are out of the way and you are next in line.

By the way, I do not think there are heroes and villains in this piece. I really do not think there are good and bad people in this thing and I do not think there are people who are evil and good. Everybody is trying to act in the best interests of the people of Ontario, and that is how I approach this.

My question is primarily to the hospitals. The provincial government is going to say it is the hospitals' fault and the hospitals may very well say it is the provincial government's fault. Can you be helpful to our committee in saying how we minimize that finger-pointing and maximize the truth in this exercise? How can we get some handle on what is the true number needed? I know you

have your figure of 8%. How can we evaluate that? Is one way of doing it that whenever a hospital is going to change its program, the hospital and the ministry agree on it? Is that an approach we should be looking at? That may already be part of it.

I am looking just at the next 12 months. I think there is broad agreement by all health professions that the long-term way to go is to get at some of the root causes, more community-based care, all those things. But right now we are focused on the next 12 months, if you do not mind. There is nothing wrong with what you are saying, and we do have to reconfigure it. I wonder if any of you can comment on that? Can the OHA be helpful to us?

Mr Timbrell: The number we have given you is the real number. There has been no gilding of the lily. We purposely did not include in the presentation to the Treasurer anything for the Ontario Public Service Employees Union, the Canadian Union of Public Employees or the Service Employees' International Union, the unions with which we have yet to reach settlements. When you take the government's own mandated programs like pay equity and the pending regulations in occupational health and safety, and you add to that what we know is the impact of the settlement with the operating engineers and the nurses and you add to that the government's own funding formulae for life support, transitional funding, etc, it comes to 8.6%. It is not 8.7%, it is not 8.5%, it is 8.6%.

We also understand what the Treasurer is saying. He does not have the money to pay 8.6% or 9.6% or 10.6%, or whatever it ultimately turns out to be once we have the other settlements.

Should every hospital deal with the ministry? Obviously that is the case, and we are prepared to do that. That does not let anybody off the hook at the ministry or anywhere else from making some very tough decisions. More hospitals will end up with revised mission statements that cut out certain services, like Toronto Hospital. Some services provided in just about every hospital in the province of Ontario today will not be provided in those hospitals six months from now, if not sooner.

Mr Phillips: That is my point. You are going to be hung out to dry, I think, hospital by hospital by hospital.

Mr Timbrell: That remains to be seen, I suppose. Clearly, what we have tried to do is to put forward in a very rational, non-hysterical manner the real facts about what is happening, what is required, and what will happen as a result of getting less than what is required.

We emphasize things like the need for transition. You have heard that from all three of us. I do not know whether it is going to be there. I mean, you get into situations like Blind River, just to choose one example, a little community in northern Ontario that fought for years to get approval to build a new hospital. They finally got approval, conditional upon reducing the number of beds, and they said, "What happens when we reduce the beds?" "Well, don't worry because there will be other programs in the community." The new hospital opens, I think, next month and guess what? The other programs are not there. So there will be a hospital smaller than the one they are giving up,

but none of the programs that were supposed to be committed and in place in the community to pick up the slack are going to be there.

Will we be hung out to dry? I do not think so. I think that the public of Ontario very strongly support their community hospitals. That is evidenced by the 40,000 men and women who regularly give their time as volunteers, and the 4,000 men and women who come from every background—trade union, business, professional, industrial, retired—and from every segment of the community, to work as voluntary trustees and governors of the hospitals.

We will certainly do our best to keep reminding people of what the hospitals are and how much they have changed, that they are not stuck in the past, and are very much part of the leading edge in health care. But we will also tell what the facts are, what the implications are of the inability of the government to fund what is required.

Ms Danaher: I think it has been acknowledged that in this province there is enough money spent on health care. Ontario spends more on health care, I think, than probably most jurisdictions. So we really have to make a tough decision to reallocate resources. I do not think we need more money. We have to use the money that we have more efficiently, and we alluded in our brief to where some of those cuts could be. We mentioned some of the hospital cuts and also the drug benefit programs where some of those cuts could come. It is taking the first step to say that money from this pile needs to go to a different use. I know they are difficult decisions. But I do not think we need more money in health.

Mrs Edwards: I would like to comment on Mr Phillips' statement of hospital by hospital, because I think therein lies one area where we do need to continue to look closely, that is, the comments that have been made by a number of us today with relation to duplication of services and duplication of care.

We in the Metropolitan Toronto area, perhaps, have a different view of things than in smaller outlying communities. But I think that looking individually hospital by hospital and health agency by health agency at times obscures the global picture for provision of care within that entire environment. Certainly, individual agency by individual agency, there are reasons and rationales to continue to function in the direction we have been functioning. Global environment by global environment would perhaps allow investigation of potential areas of duplication, both in terms of services provided and the level of care giver providing it.

The Chair: Have you a second question, Mr. Phillips?

Mr Phillips: In fairness, I do just keep going around. I do have, but I do not—

The Chair: Okay, Mr Wiseman.

Mr J. Wilson: I thought we were going in rotation.

The Chair: We have been moving back and forth because some people have not indicated they wanted to ask another question. You have had two.

Mr J. Wilson: When Mr Sutherland took the Chair he indicated we would go in rotation, and I should have more

questions because I alone am representing my party. This happens on every committee.

The Chair: Mr Wilson, we will get to you. We are going to do this as efficiently and as quickly and as concisely as possible. Thank you very much.

1720

Mr Wiseman: I have a question about what has become a major issue in my riding as of this week: a paediatrician who has just decided he is going to move to the United States. In the US he will get \$1,500 per delivery of baby.

Interjection: A paediatrician?

Mr Wiseman: An obstetrician, sorry. In Ontario he gets \$242. He can make \$1.5 million down there, and he cannot here. I would really like some comments. Now, obviously, our health care system does not have the kind of money in it where we can increase from \$242 per delivery to \$1,500 per delivery to keep medical practitioners here.

Then I have a second question about how you implement some of the recommendations in the brief from the Ontario Public Health Association.

Mrs Edwards: I would like to comment. In terms of the recent legislative changes that have been made with respect to midwifery, delivery in healthy, full-term pregnancies in which there are no anticipated complications does not necessarily need the services of a physician at a cost of \$1,500. The government has been moving, or RNAO feels the government has been moving, in a very supportive manner to provide health care access for Ontarians by individuals who will be well-prepared to provide it. The area of midwifery versus the cost of an obstetrician is a very good example.

Mr Wiseman: With respect, that does not answer the question about the need for an obstetrician to be there at difficult births, or how our system is going to be able to maintain the level of specialists in all areas against the competition and attractive forces south of the border. I do not know if you have an answer to that.

Mr MacFarlane: I would have to share the view that there are alternative professionals who are capable and who should be given opportunities. I know hospitals are quite prepared to train midwives, for example, and other professionals can help. Social workers can assist greatly, if they are properly trained, in work that psychiatrists could assist to them.

Mr Elson: The analogy that comes to mind for me is cross-border shopping. I think people who choose to live in the United States are giving up much more than they may gain in salary. If they are that dissatisfied with the quality of life in Ontario, then more power to them because, as I said, there is much more to life than salary. I tell people when they go and buy something across the border to ask the cashier what happens when he or she gets into an accident or falls sick, what it costs. What happens when her child is sick and she cannot work? Those are the things in the global context that people have to realize when they live in Ontario.

Ms Danaher: I would also support what my other two colleagues have said. You really need the most appropriate person providing care. Do we want to be providing salaries to physicians in the hundreds of thousands of dollars? Do we want to move to an American-style system? There you have 40 million people with no health insurance and another 50 million who are inadequately covered. Those are the consequences when physicians are paid those kinds of salaries and where other people who can provide appropriate caring service are not doing it.

Mr Timbrell: I have not heard anybody proposing an American-style system for Ontarians. I do not know where that came from.

Mrs Sullivan: The deputy minister.

Mr Timbrell: The deputy minister? It would be interesting, number one, to see if that obstetrician does go. It would be interesting to see him when he comes back to Canada after he lives with the cost of malpractice insurance, after he lives with the lifestyle in American cities, after he lives with having to answer the inquiries from literally dozens of third-party insurers and fill out inconsistent forms and have his medical judgement questioned on a daily basis by bureaucrats, not of government, but of the private sector. You may want to start a pool in your riding to guess the date when he will come back.

But it does raise another issue, the whole question of the distribution of medical personnel in the province. Ontario has enough doctors, Ontario has had enough doctors for years. What Ontario does not have, what for that matter no province has, is a system that encourages the proper distribution of physicians. I am not just speaking of northern Ontario, because all your colleagues from the northern ridings will tell you that for years, from Thunder Bay to Winnipeg, there was one pathologist to serve all of that part of Ontario. That doctor was criticized at one time because his billings were in excess, 12 years ago, of \$1 million a year. But we could not find anybody else at the time who was willing to be an itinerant pathologist, to go from hospital to hospital from Dryden to Kenora to Fort Frances back to Thunder Bay and so forth—or psychiatrists.

That is in the north, but there are also serious shortages in the south. I dare say if you go into parts of Oxford county, if you go into parts of Frontenac county, if you go into parts of counties very much closer to Toronto, there are shortages of certain specialties. Nobody has any easy answer to that because there are no easy answers to that. British Columbia tried to limit billing numbers. British Columbia tried any number of things and they were all struck down by the courts. That is a major planning issue that we all have to be concerned about and try to find some better ways to address.

Mr Wiseman: On page 3 of the brief of the Ontario Public Health Association, it says, "Quality of treatment by medication can be improved by improving prescription practices, physicians' knowledge of pharmaceuticals and the recognition and use of the pharmacist as part of a multi-disciplinary decision-making team." Prior to that you suggested perhaps the province should become a little heavy-handed and arbitrary about rolling back costs as

well. On page 5 you talk about an epidemic: tobacco and alcohol, preventable accidents, caesarian sections, test drugs and everything.

How do you put into place a system that monitors this or makes sure that, on the one hand, patients are not taking 25 different drugs that are doing counterproductive things in the body, and that they are not getting treatments that are not necessary? How do you do that?

Mr Elson: The introduction of health care, as it becomes more widely used on an individual basis, and the introduction of the smart card will certainly provide a tracking mechanism that was not available before. A lot of the information about drugs and doubling of prescriptions and so forth is information that can be used or is available but has not been used from a system management point of view. It has basically been used as a way to pay for it but not to manage the system.

I have talked to individuals within the user services branch of the Ministry of Health who have been talking about the fact that there is substantive computerized information that could be made available for a different use from a system management point of view. I think there are probably some keys in that area.

Mr J. Wilson: With the minister talking about some \$5 billion that could possibly be saved in the system and is currently being wasted, how lean do each of you feel the system really can get before we have a crisis on our hands, given that I have been told by the minister today that there is no crisis now?

Mrs O'Donnell: I do not think the present system, the way we deliver health care at the present time, can be pared back much more without a crisis. Everyone in the system, be it institutional care or public health, agrees that the current system cannot sustain itself much longer. That is not just in Ontario; that is a direct quote from the provincial commission in Alberta as recently as 1990. This system is on the rocks. We have got to change it. How do we go about it? I am having difficulty imagining how we could sit here at the end of the table and come up with an immediate response to that, but it can be done.

Mr J. Wilson: Do not worry. I am going to give you a solution.

1730

Mrs O'Donnell: Are you really? I cannot wait. The system as it stands at the moment has been pared back about as lean as it can go, in my view.

Mr Timbrell: The term "crisis" is one the minister used in her speech to the Ontario Hospital Association convention about two weeks ago at which time she said, "This may be the crisis which everyone has been predicting for years and years." When we choose not to use the term "crisis" or not to do what I call a Henny-Penny, that is not to say there are not concerns, because clearly there are and I think we have been highlighting those from one end of the province to the other.

We recognize that coming out of this difficult period is going to require the best efforts and the best will of the government and ourselves and every other player in it. We have tried to highlight, though, two things.

One is the need for clearly defined objectives, so we know, the public knows, everybody knows what we are working towards and the time frame that is expected.

Two is that there are some very difficult choices which have to be made in the clinical area. While the government did establish a long-term agreement with the medical association, and while there may in fact be some who feel that the members of that profession are somehow not part of the solution, indeed the physicians and every single hospital in the province are engaged in discussions about the implications of the inability of the government to fund the system and what they will have to do—not what they could do, not what they might do, but what will they have to do—to help us manage our way through these difficult times, because without that co-operation it simply cannot be done.

Mrs Edward: I would like to echo the words of my colleague at the OHA about the difficult clinical decisions that will have to be made in terms of the resources required to provide the care that is needed and to make sure everyone has access to that care. Certainly there are duplications and there are times when one test is good so two tests must be better, and the most expensive test is obviously the optimal so we will order all three just to be sure. There are certainly some areas where we can be looking to provide more concrete direction on an individual-by-individual basis in terms of how we can refine our resources.

We also concur with the Ontario Public Health Association comment that the placement of resources needs to be continued given the present form of financing that we have. That is to say, we cannot make major changes to the location of care of patients without providing resources either to place them more long-term in the community or to provide different levels of care providers in institutions.

Mr J. Wilson: It seems to me that what you might want to be lobbying for, as all health care providers and players in the system, is to win over public support, and I am interested to find out from each of you whether this would be at all possible. I have been going around the province saying in my speeches, "I think the government is going to have to stop paving roads for a year or it is going to have to..." and I list a number of things people count on being done every year.

Mrs Sullivan: Except in my riding.

Mr J. Wilson: Except in my riding too. But the Treasurer, to his credit, I noticed on a program the other day, made it very clear that although it has been a long-term policy of the government and of other parties to move towards community-based care—and I think Mr Phillips hit the nail right on the head. I do not think we can continue the way we are going, in putting an absolute crunch on the institutional care we have and yet not building up the community care.

The government should be honest with the people of Ontario and say, "If you really want to move this way it's going to take a tremendous amount of cash and you are going to have to be willing to give up other programs for a while." That is the recommendation that should come forward from health groups.

Mr Sutherland: So, you are saying spend and save?

Mr J. Wilson: No. Identify the spending, but I will not get into this political debate.

The Chair: Mr MacFarlane.

Mr MacFarlane: I think that is the point. The system is in transition, as we have heard today. There needs to be accommodation from a program point of view to allow that transition to go into place. There needs to be allowance for the transition to occur from a physical plant point of view. Hospitals were not built to provide some of the outpatient ambulatory focus that they are now required and determined to do. There has to be funding to bridge between a current system and structure programmatically and physical plant-wise to allow it to change properly and to direct the change with the standards which are required.

One of the areas where hospitals could generate revenue, for example, would be if they were allowed to build for laboratory outpatient work in the same way private labs do. This would allow income to hospitals to offset some of these escalating cost problems, but they are not allowed to do that.

The Chair: I am going to move questioning now to Mrs Sullivan and then to Ms Ward, and then I am going to cut off questions because there are two other very brief agenda items that we must deal with.

Mrs Sullivan: Thank you. I want to move into another area related to fiscal and financial demand. We have just started, actually, to move into that area. Before I do, I wanted to have a confirmation from the Ontario Hospital Association that this steering committee program review report is due tomorrow. Is that going to be coming forward?

Mr Timbrell: I believe it is going to cabinet or the Treasury. I do not believe it is going to be released publicly. But it is also not very definitive. It is a set of options. It is not making any definitive recommendations.

Mrs Sullivan: Okay. The next area relates to capital. There had been a commitment in the 1990 budget of close to \$1.33 billion worth of capital over a four-year period. Some \$500 million of that has been committed so far. Another small amount of capital is being deferred to next year. To conclude that capital commitment, the next budget should be committing for the next two years something in the nature of \$900 million in capital, including the deferred capital for this year. Presumably, there ought to be a commitment of, indeed, the next phase of a multi-year capital program. What are you placing before the Treasurer in terms of capital requirements relating to a multi-year program or asking the government to honour the commitment relating to past capital announcements that have been made?

Mr Timbrell: We have been pursuing the 1990 set of commitments, a number of which have been delayed, as you have indicated. I have to tell you the indications we have had so far are that they will not be honoured, that there will likely be a new capital plan announced. We have been told to expect that a number of communities will be told, after waiting for years and years for replacement hospitals or new wings or whatever, that their projects simply

are not going to proceed at all. We have not yet got into the criteria, although, in fact, it is on the agenda for our meeting with the ministry next Friday under the new joint planning process; but clearly they have got to relate to what is happening across the province in discussions of downsizing. That may very well lead, as it is leading already in Windsor and perhaps in some other communities, to discussions of abandoning whole hospitals and merging or simply closing hospitals and seeing the programs and activities dispersed over other facilities in the area.

Mrs Sullivan: One of the things which is also a part of capital, that is, not only building, relates to equipment that is required in hospitals. I noticed what I thought was a very peculiar change in policy relating to CAT scanners where hospitals are now having to go back and reapply and where the commitment is very different. There is not going to be ongoing operating funding. There is going to be one-time funding. Particularly in our teaching and tertiary care hospitals, but not necessarily limited to those, the emphasis on capital spending for high-tech equipment, even with a move to community-based care, is still going to be a vital aspect of that. Has there been any indication of the nature of capital commitment in terms of emerging technologies and new equipment or of increased commitment to provide assistance in research and development, in which Ontario is also falling behind many other provinces?

1740

Mr MacFarlane: You may be aware that hospitals are required to provide their own capital for equipment replacement and for new equipment outside of that portion of equipment which is part of a new hospital, for example. There are tremendous pressures on hospitals to fund-raise in their local communities to purchase new technology, to keep up to date and to replace equipment which is outdated, often at a multiple of the cost of the old piece of equipment, because of changes. There is a major need for capital, just for equipment replacement in hospitals, that does not get government assistance.

Mr Timbrell: To further answer your question as to whether there is any indication that they are prepared to fund new technology beyond what we have now, no. Is there any indication that they are prepared to fund enhanced R and D in either the development or use of new technology? No.

Mrs Sullivan: If I could pursue with the RNAO the question of human resources planning, one of the things that is clear to me, particularly after the Regulated Health Professions Act changes, is that the emphasis on the RNs in home care is going to have to increase because of the nature of the scope of practice. The training and delivery of RN services is going to have to be put into a very different focus outside the hospital than it is now. I do not know if the hospitals want to talk about this as well, but what is the impact in terms of human resources planning of a move to community-based care when it is going to be the RNs, because of the scope of practice, who have to deliver specific kinds of services?

Mrs Edwards: One issue on which the RNAO has joined with other provincial nursing professional associa-

tions, and the Canadian Nurses Association as well, over the past 15 years is something called "entry to practice," which means that by the year 2000 the goal is that the basic entry level—ie, basic educational preparation—for a beginning nurse will be a baccalaureate degree. What you are, I think, alluding to is the fact that in the community the autonomous practice, the independent decision-making, very much functioning as an autonomous professional not under the specific and daily direction of another health care profession, is going to increase as the needs and complexity and type of patient in the community change. Certainly the RNAO has been supportive of the transfer and development of educational programs in addition to, and eventually alteration from, diploma programs that are currently provided.

The reality in Ontario is that we are probably the farthest behind any Canadian province in this area, because of the major complexity. We have 22 community colleges and nine universities that have nursing programs. The majority of other provinces have at most one, maybe two universities and a couple of either hospital-based or community college programs. We recognize, when we face the wall, that in reality we will not make that goal by the year 2000. But the focus on adequate preparation in order to ensure that the clients in the community have somebody who is able to use the assessment skills and intervention required to keep them in the community, is going to require a different form of educational preparation. I would be interested to hear what my colleague in the community would have to say to that.

Mrs O'Donnell: The home care programs have till now been primarily housed with health units, so we are quite familiar with the demands of the nurses who work in home care providing treatment and care. One of the reasons I am not alarmed at the thought of having the home care organizations move out of health units is that the health unit focus is promotion and prevention, whereas home care is a treatment and care facility. The nurses in those settings will require the higher level of preparation.

There are some really interesting initiatives under way at the present time between RNAO, Ryerson and some of the community colleges as well to institute some kind of laddering system whereby a variety of levels of care giver will be able to work through the system. It is anticipated that working in the community will require the top level of preparation, because of the judgements that have to be made independently, without immediate supervision.

Mr Timbrell: I have two quick points. Clearly one of the human resources management issues that every hospital CEO and his staff deal with every day is the allocation and the utilization of the appropriately trained staff. Whether it is RNAs, RNs or baccalaureates, there is a role for all of them in various types of daily tasks within the hospitals, and within the communities.

Apropos Mrs O'Donnell's comment about health units and their role and perhaps seeing home care move away, I have to say that if the health units are no longer prepared to do it or think it is not appropriate, we think it quite appropriate that the hospitals in many communities in this

province get involved in overseeing the operation of the home care programs to properly co-ordinate admission and discharge, to keep people out of hospitals who do not need to be there, to get people home sooner who do not need to be in hospital, to avoid the duplication and the cost of administration and to ensure consistency in the approach in those communities.

Ms M. Ward: I think it is a good idea to have representatives from different parts of the health care system here together. Actually, I was surprised myself to see the co-operation that is out there. Last week I was at an annual meeting at Flemingdon Health Centre. They are working in conjunction with two different hospitals and with East York health unit in different programs. My question may be a little parochial. It has to do with my area, Metropolitan Toronto, and is about health units.

I do not know what part of the province you are from, but Mr Timbrell would likely be familiar with this issue—the different level of funding for the Metro Toronto health units and the rest of the province. I think it is 40% in the Toronto area and 75% elsewhere. There are historical reasons for it. Do you think the health units in the Metropolitan Toronto area are too small and should be amalgamated—I guess that was one of the reasons they did not get the same level of funding in the first place—or should they stay the way they are and the funding level be increased?

You have two recommendations here in your paper about the health units, asking for \$60 million in funding for their mandatory core programs, which became required in 1989. Then you have another recommendation about the division of funding. I wonder if you could comment on that.

Mrs O'Donnell: My mind is bouncing around a number of aspects of your question. In the first place, speaking generically about public health, the prevention/promotion part of the health care system, at present it consumes somewhere between 2% and 4% of the health budget in Ontario. So when we look towards a percentage increase in public health, it represents a relatively small drop in the bucket but a major component for the people delivering the care.

There is a very complex history to the Metro funding as compared with the rest of the province. To oversimplify, when public health first began in Ontario, Toronto was one of the first to get into the system. The Toronto municipality had started developing its programming. They had a huge tax base on which to collect the taxes that they used, without provincial help, to provide public health at that time.

1750

When the more rural communities were—I will not say uninterested—disinclined to contribute to public health, provincial funding was begun to encourage this particular aspect of health care. I believe that over time the per capita expenditure in public health in Toronto exceeded the per capita in other parts of the province.

Ms M. Ward: Can I interrupt? You are speaking of the city of Toronto, not the other municipalities?

Mrs O'Donnell: You have me on that one. I am sorry, I do not know enough to respond.

Ms M. Ward: There is a fair difference. In East York, which I am familiar with, and probably in the city of York the per capita level of spending is much lower, because they do not have the base. I am sorry, I should not have interrupted you.

Mrs O'Donnell: No, that is quite all right.

Mr Elson: Certainly it is one of the main reasons we are advocating for the disentanglement issue to be resolved, because it is not unlike the situations that hospitals face. We have provincially mandated core programs that municipalities cannot afford to purchase. In many cases at a regional level it is literally a purchase agreement.

Historically, the budgetary allowance for public health has not been taken up, because whether it is a rural community in the north or one in Metropolitan Toronto, the money only comes from the province when there is the proportional allotment from the municipalities. Right across the province that money is not there, so they are faced with a dilemma: Do we not deliver the mandatory core programs? If so, then what level of service is a community prepared to accept?

It is really tough, particularly when there are some programs that are 100% funded where they are not tied dollars. But where they are tied dollars, then it becomes a real dilemma, because the municipalities, particularly this year, have already voted 0% increases. So whether the money exists within the provincial government or not, they cannot even access it. It is a real problem for us.

Ms M. Ward: You would not comment then on whether those units are not too small or—

Mrs O'Donnell: Underfunded.

Ms M. Ward: Yes, underfunded.

Mrs O'Donnell: I do not feel I could comment on that, but I do feel that the issue Peter has spoken to is a critical one. When there are two different sources of funding, both must be in place. If the municipality says its share is not forthcoming, then the provincial money does not come. Similarly, if the local community wants something as a priority that does not fit with provincial priorities, the province can withhold. In either case, no funds come to the agency to provide the service.

Ms M. Ward: Ideally, all those mandatory programs should be provincially funded.

Mrs O'Donnell: This is certainly the position of a lot of people in public health.

The Chair: Thanks to all of you for coming this afternoon to present to us and for being so responsible and responsive in staying so long to answer our questions.

A point of order has been raised.

Mrs Sullivan: As we have indicated, this is a new and bizarre process of pre-budget hearings. Today we have had people who are involved in carrying out the services represented by over a third of the provincial budget. It seems significant to me that the Ontario Medical Association—

Interjection: Declined it.

Mrs Sullivan: I know—has declined the invitation, when indeed we have heard that the utilization questions and the settlement question in terms of the OMA settlement with the government have significantly affected many of the decisions that surround the budget preparation process and the nature of the hearings. Frankly, while the OHA and the RNAO and the public health association were very responsive and put a lot of time into their briefs, there is a significant gap in what is available to this committee and to others in terms of a real discussion of the health care portion of the budget. I want to put that on record. I think it is disturbing and surprising that the Ontario Medical Association declined the invitation to appear.

The Chair: A point well taken and it will be recorded. There are two items not on the agenda, and we have a very short time to deal with them. One of them is that we have received a request from the Treasurer that he himself wishes to appear before this committee. I know that is separate from the Treasury staff who will be coming on the afternoon of the 5th. I am wanting to refer this to the subcommittee for a discussion, because the time is short here, or should we—

Mrs Sullivan: Oh, sure, bring him in.

The Chair: You want him instead of the Treasury staff, along with the Treasury staff—

Mr Sutherland: I believe he is coming to talk about process, how we can open up the budgetary process overall, more than the exact figures, which is what the Treasury staff is coming for.

Mr Phillips: When is Ron coming? We have Ruth here, but where is our ex-Chairman's painting?

The Chair: We can have him paint his picture on the wall.

Mr Sutherland: I think we should have the Treasurer come because we do not have anything scheduled for the 12th or the 19th so we could easily accommodate the Treasurer to talk about opening up the process.

The Chair: Is there a specific date? Either of those dates?

Mr Christopherson: My understanding from my discussions with the Treasurer is that he would like to come as soon as he can to give us ample time to do our planning, and I would suggest that from his presentation may flow some of the discussions we will have around what we are going to be doing in the winter and how we will be conducting the pre-budget consultation. If you wish, I would be quite prepared to work with the clerk and the Treasurer's office to have Floyd come in as soon as possible to give us as much latitude as possible, and keep that separate from the presentation of the Treasury people on the facts and figures of the economy, so that there is ample time for both discussions.

The Chair: Is that agreed? There is no problem with that? Fine.

Mr Phillips: Will you tell him about Ron?

The Chair: I thought you were going to do the painting.

Mr Sutherland: He has been told.

The Chair: There is one other matter. It has been suggested to me that it be referred to the subcommittee, but we are to schedule the next sitting times and the focus of those sitting times so that they may be put on the agenda.

Mr Christopherson: Could I suggest that the committee today authorize co-ordination between the clerk, myself as the PA and the Treasurer and then the Treasurer's staff, in setting the agenda for the next couple of meetings? That would maybe save us a step now.

Mr Phillips: What are we dealing with?

Mr Christopherson: We are talking about the Treasurer's letter wherein he would like to come forward and talk about the nature of the pre-budget consultations for the new year, and also your request to have Treasury staff come forward. I am just saying that if the committee today would empower the Chair and the clerk, I will be willing to work with them to bring those two entities here as quickly as possible, and they have the authority to go ahead and just schedule, rather than going through the subcommittee. But if you feel that is—

Mr Phillips: We set aside the 5th for it, did we not, the afternoon?

The Chair: We set aside the 5th for the Treasury staff.

Mr Phillips: That is fine with me.

Mr Christopherson: I do not know personally if that has been confirmed or not. That is all I am saying.

Interjection: The whole day?

Mr Phillips: Just the afternoon, I think, for the staff.

The Chair: This is a separate item. Since that has been agreed upon, what the whip's office wishes to know is how many weeks of sitting time this committee would like to request for the winter session, and that might appropriately be dealt with by the subcommittee.

Mr Christopherson: Do you want to have them do it after the Treasurer comes in and we have had that discussion, and get the subcommittee to crunch on things and come back with a recommendation?

Mr Phillips: I know Monte will be in the country some time soon.

Mr Sutherland: Where is he? We have not seen him for—what?—about a month.

The Chair: Shall I take it then that we will refer that to the subcommittee and that there should—

Interjection: Are you sure he is not out campaigning for committee Chair?

Mr Phillips: Madam Chair, I am assuming next Thursday afternoon is the Treasury people and then you set up the meeting with the Treasurer, and that is on an ASAP basis. Then the subcommittee, I think, should try to meet some time in the next couple of weeks to map out—

The Chair: Decide on the winter session.

Mr Phillips: In my opinion, yes.

Mr Christopherson: That is fine. I was just acknowledging that I cannot say with any certainty that next

Thursday afternoon is Treasury staff. It looks like it is, but I do not know that for sure. I think we need to firm that up.

The Chair: Has that not been confirmed yet?

Mr Christopherson: I am not aware of the confirmation. That is all I am saying. I do not want to make a commitment to Gerry and then find out it is not there and he says, "Dave, you didn't say anything last week that it

was a problem." I am just acknowledging I do not have that—

Mr Sutherland: That is right. It will be all your fault, Dave.

Mr Christopherson: If there is a problem, though, we will just blame Kimble and straighten it out afterwards.

The committee adjourned at 1801.

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Standing committee on finance and economic affairs

Pre-budget consultations
Organization

Comité permanent des finances et des affaires économiques

Consultations prébudgétaires
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La table des matières des séances rapportées dans ce numéro se trouve à l'arrière de ce fascicule, ainsi qu'une liste des membres du comité et des autres députés ayant participé.

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LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday 5 December 1991

The committee met at 1012 in committee room 1.

PRE-BUDGET CONSULTATIONS

ONTARIO PUBLIC SCHOOL BOARDS'
ASSOCIATION

ONTARIO SEPARATE SCHOOL TRUSTEES'
ASSOCIATION

The Chair: Today we have two presentations, from the Ontario Public School Boards' Association and the Ontario Separate School Trustees' Association. I want to welcome both groups here this morning and those who are observing. Thank you very much for coming to our pre-budget consultations.

I understand that the order in which these presentations will be made is the order as it appears on the agenda. The Ontario Public School Boards' Association will present first, and presenting will be Paula Dunning. I ask that when you come to the table you introduce those who will be presenting with you.

Let me explain that we are going to have the presentations follow one immediately after the other. They will be approximately 10 minutes. I ask that you try to have 10 to 15 minutes and then after that we will open up to questions. As I have told each group, you may certainly refer questions to any of the staff or others you have brought from your associations and they may assist or carry out the response.

I want to say to the members that we are expecting this presentation and the questioning will probably be complete around 11 or shortly after, and then we have another walk-on agenda item. So I ask that your questions be concise and direct.

Ms Dunning: I will begin by introducing my co-presenters. Gail Nyberg is a trustee on the East York Board of Education, and Karen Redman is a trustee on the Waterloo County Board of Education. Both of them are vice-presidents of the Ontario Public School Boards' Association and will be following my comments with some comments of their own on specific parts of our brief.

I would like to begin by thanking you on behalf of OPSBA for the opportunity to participate in the 1992 budget process. Like the rest of this province, public school boards see the economy as the overriding issue of the day and we do not envy you the task of striking a balance among many legitimate demands that I know are coming your way as you meet with interest groups from across the province.

Two weeks ago we presented a brief to the Minister of Education, Tony Silipo, in which we stressed the dilemma education finds itself in today, in short, between the proverbial rock and a hard place, between two diminishing sources of revenue.

The brief, 1992 Transfer Payments: A Commitment to Education, has been provided to each of you in the folder and we would like you to consider it as a companion piece

to the brief we have prepared for this committee. I will not be touching on every subject in that brief, but it does relate to much of what we will be raising with you here.

It is clear to us that continuing to turn to the local tax base to support the increasing costs of education is no longer an acceptable option. Yet the effective delivery of such a fundamental program as elementary and secondary education must continue to be a priority. Even in times as difficult as these, we are convinced that without a continued, focused investment in education our prospects for a brighter future will be diminished.

We are asking the provincial government to show the leadership needed to help us navigate between the rock and the hard place. That means working together to find ways to maximize limited resources, as well as recognizing the legitimate needs of education for increased revenues.

We recognize and appreciate that fiscal reform is in the air, and we hope that a new financial arrangement for school boards will emerge from the Fair Tax Commission and the education finance review that recognizes the principles of equity and local autonomy. But we would like to suggest today that there are some legislative and policy changes the provincial government could implement now to ease the burden on local taxpayers.

We will address issues related to the growing mandate and associated costs of the education system, to the continuing need for capital funds and the processes for allocating those funds, and to cash-flow and taxation policies that affect school board revenues from both the province and municipalities.

As we look towards our own budget-setting for 1992 we see only three options: increases in revenues from the province to meet increasing expectations on our system, increases in local taxation to meet those same expectations, or a reduction in the expectations themselves. We would like to suggest that a reduction in resources without an accompanying reduction in expectations is a recipe for even greater public dissatisfaction than we are experiencing now.

We would like you to consider some of those expectations. School boards are under considerable scrutiny for what the public sees as runaway costs, but more often than not those costs are the direct result of provincial initiatives. Among recent provincial initiatives which have become an accepted part of doing business for school boards are mandatory special education, second language instruction, heritage language instruction, English as a second language for new Canadians, and computer technology in the classroom—accepted, but costly.

We know there is more coming: integration of special education students into regular classroom programs, mandatory junior and senior kindergarten programs, and the restructuring initiatives themselves which are being developed without reference to cost implications. We do not

argue about the value of any of these initiatives, but the cost of implementation must be factored into the increased costs of doing business and acceptable revenue sources must be found if implementation is to proceed during this period of restraint.

It should be noted that over 80% of local school board budgets are related to salary. In education, major economies can only be realized if reductions can be made in staff salaries or staff complements, with resulting impact on programs. That is why, although we appreciate the symbolic value of freezes on senior administrative salaries, we have asked the government for assistance in the form of effective public service wage guidelines.

Not all mandated programs, of course, are educational. Both the Ministry of Labour and the Ministry of the Environment have introduced programs that have significant financial impacts on school boards. We are watching carefully the legislation that would require school boards to implement waste audits. Again, it is not a program we have a problem with in principle, but it is a program that will have associated costs that will need to be met.

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Let us repeat to you the message we took to the minister: Local school boards cannot assume new responsibilities without adequate support from either the province or the local taxpayers.

This brings me to recommendation 1 in our brief, that the government not impose new programs or regulatory requirements that have the collective effect of adding significantly to local school board budgets. Implementation of new programs and regulations must proceed on a voluntary basis, to reflect local need and the ability to pay.

As an aside, it is our firm belief that by devolving more of the decision-making power to the local level, resources will be spent in a more efficient way to address programs that are identified at the local level.

Public school boards are now implementing pay equity, at a major cost to date, without access to any of the \$100 million in special assistance funds from the province, reduced to \$50 million as part of the midyear spending adjustment.

Therefore, our second recommendation is that the government develop, in consultation with school boards, criteria for accessing the pay equity fund in this fiscal year, and further, that the \$50 million be reallocated back into the 1992-93 budget to address costs arising from the legislation of proportional value/proxy pay equity.

In order to fund education programs equitably, it is essential to know what they cost and what impact those costs will have on both the provincial government and local communities. Too often the absence of this information has resulted in significant underfunding, with unanticipated shortfalls added to local requisitions.

Therefore, our third and fourth recommendations are that financial support be given to the Ministry of Education in recognition of the ongoing development of a comprehensive financial database for education, which is already in progress, to assist the government partners in an accurate assessment of the costs of educational programs, and that all submissions to cabinet and Management Board

include a school board financial impact analysis of provincial initiatives that they will be required to implement at the local level.

I am going to ask Karen Redman to address the issues related to the capital grant program.

Ms Redman: OPSBA strongly supports the statement contained in budget paper D, "The Ontario Capital Fund":

"Public sector investment in infrastructure makes an important contribution to economic and community development in Ontario. The money that the government spends on roads, schools, hospitals and other public facilities has a positive impact on the current and future growth of this province...."

"Public investment in 'human' capital such as spending on education and training that increases the skills and adaptability of the workforce, also makes a contribution to long-term economic and social development."

There exists a backlog of unfunded requests for new schools to meet the needs of growth boards, as well as renovations for all. More than 20% of the schools in this province are over 50 years old. The basis of the pupil-loading formula for specific types of classrooms, with the exception of the change to reflect classroom size for grades 1 and 2, has not been adjusted for years. This funding is not based on actual requirement. The rated-capacity formula has not been adjusted to reflect the ministry's own directives. Hence:

Recommendation 5: OPSBA urges the government to review and update the rated-capacity formula.

Recommendation 6: OPSBA urges the government to increase the capital grant allocation to at least the level necessary to accommodate rated-capacity formula changes directed by Ministry of Education policy.

Recommendation 7 deals with the anti-recession fund. We recommend that it be continued in the year 1992-93, with access to school boards for funding for school capital and renovations.

The role of the Ministry of Education, in its regional offices, should be to establish criteria and funding parameters and then allow local school boards to make the most cost-efficient use of public dollars. The grant capital program must be revised to achieve administrative efficiencies and cost savings, provide a clear and acceptable provincial allocation process and provide for flexibility and local innovation.

Recommendation 8: OPSBA recommends that the Ministry of Education and treasury board, in consultation with the school trustee associations and school board officials, review the administrative and regulatory requirements of the capital grant program to facilitate local flexibility and administrative cost savings.

In 1991, approximately 67% of the capital allocation went to separate school boards, with only 32% going to public school boards. This policy appears to discount the fact that the public education system serves three times as many pupils. Public school boards are also truly public, with the mandate of providing education to every student. Well-defined and well-balanced criteria that include not only assessment wealth and enrolment growth but also school board mandate and other factors are needed.

Recommendation 9: OPSBA recommends that the Ministry of Education develop, through consultation, allocation criteria and that these be publicized. As well, the Ministry of Education, through its regional offices, should provide a yearly public report which sets out the criteria and rationale for capital funding allocations.

Ms Nyberg: In 1985 the Macdonald commission pointed out that school boards pay out significant sums in interest payments to finance their operations while waiting for money from the province. The commission stated, "We think that the province should transfer funds to school boards each month as expenditures are incurred, particularly during the first three months of the calendar year." This problem still exists.

Municipalities issue interim tax bills early in their fiscal year. Most of the property tax dollars have been collected by midyear. The municipality has the advantage of keeping the funds and the interest earned. Interest paid is always more than interest earned and school boards are faced with interim borrowing. This seems to be a poor financial policy. The ultimate loser is the residential taxpayer.

To this end, OPSBA has two recommendations. OPSBA recommends that the general legislative grant regulations and the payment schedule be amended as follows: 25% paid out by March 1 and elimination of the 7% hold-back, with the total allocation paid out in the school board fiscal year. OPSBA recommends that the Education Act and the Municipal Act be amended in the spring 1992 session of the Legislature to revise the payment schedule to ensure a more realistic transfer of education property tax to school boards.

Payments in lieu of taxes are viewed as a replacement for property taxation and for this reason should be shared in a more equitable way among all local programs and services funded from the property tax base. An obvious example of the government's policy to decentralize, deinstitutionalize and provide access to services to all citizens is special education, a high-cost program. School boards should have access to payments in lieu as part of their local revenue to assist in meeting these costs.

OPSBA recommends that the Municipal Act and the Education Act be amended in the spring 1992 session of the Legislature to provide for the equitable sharing of provincial payments in lieu between school boards and municipalities. Further, OPSBA requests that the provincial government pursue with the federal government similar amendments to the federal grants-in-lieu legislation.

Telephone and telegraph taxes: Section 161 of the Municipal Act provides for sharing between area municipalities and local school boards. There are situations in northern Ontario where there may not be a municipality but there is a school board. In 1990, it was estimated that there was approximately \$2 million in revenue lost to these small northern boards. OPSBA recommends that the Provincial Land Tax Act be amended to enable an equitable sharing of taxation from telephone and telegraph taxes in areas without municipal organization but with local school boards.

Ms Dunning: In conclusion, while this committee's mandate is to examine the short-term question of the cost

of providing adequate resources to education, over the long term the question must be the potential costs of failing to do so. Ontario's public school boards are committed to working with the government and other partners in education to become part of the solution to the problems we face.

We look forward to full participation in the search for long-term solutions to education funding, but we appreciate as well this opportunity to share some of the legislative, regulatory and administrative changes we believe could improve both government efficiency and political accountability during this period of fiscal distress.

1030

The Chair: We will move immediately to the presentation from the Ontario Separate School Trustees' Association and then will resume questioning for both groups.

Ms Moseley-Williams: We appreciate this opportunity to come and talk to your committee with some of our thoughts on the financing and the budget process in Ontario. I am Betty Moseley-Williams, president of the Ontario Separate School Trustees' Association. Jim Sherlock is a trustee from Halton and is the past president of our association.

We appreciate the opportunity to assist the standing committee on finance and economic affairs in its deliberations on the upcoming provincial budget and the financing priorities of the province. Public expenditures on education are a significant part of the provincial budget.

We recognize that this is a time of fiscal restraint. For separate school boards, fiscal restraint has always been a necessity. We agree with many of the recommendations that have been brought forward by the Ontario Public School Boards' Association. We have some significant differences, as you will see.

In part I of our brief we discuss certain basic principles we believe must be respected in the budgeting process for education. In part II we describe how the education funding model creates two classes of school boards: the haves and the have-nots. In some respects, it is an engine of inequity that sometimes operates to make the poor boards poorer. In part III we address certain specific concerns about the model and how it can be improved on a short-term basis, mindful as we are of the fact that the standing committee's mandate deals only with next year's budget.

In part I of our brief we outline the basic principles of education and the funding model. The most basic principle is the right to education itself. In Ontario the goal of the system of education is equality of educational opportunity. Because some parts of the province are richer and others are poorer and because some boards are richer and others are poorer, equality of educational opportunity can happen only where some equalization of wealth occurs. The province has always recognized this problem, as you will see from the quote on the title page of our brief:

"The provincial government accepts the principle that it has the responsibility of providing additional financial help where needed and in amounts inversely proportional to local assessment wealth per classroom, or assessment per class unit, to all school boards without sufficient local financial resources to provide the type of education program desired by their communities."

In OSSTA's submission, the basic principle of equality of opportunity must be understood and applied in the context of the system of education in Ontario, which has two branches and two linguistic groups, each with its own mandate. Equality of educational opportunity has three aspects: equity in financial resources, equity in facilities and equity in programming. The latter two are intimately related, since certain programs need specific facilities and cannot be provided in their absence. OSSTA submits that equity in financial resources, programming and facilities must be considered on a per-pupil basis.

We refer to the principle of parental choice at page 3 of our brief. Four choices in public education are offered in Ontario. Children can be educated in English or French, in schools operated by public or separate school boards. Parents make their choice depending on their right to do so, a choice in which children participate increasingly as they grow older. OSSTA submits that parental choice should not be influenced by unfairness in the financing system.

Our conclusion respecting the principles of education is set out on page 4. Only when the education funding model in Ontario provides every school board with equal per-pupil revenue, regardless of revenue source, adjusted only for local circumstances and high-cost programs, will these principles be realized in practice.

Our basic message to you today is the following: Inequities in educational opportunity exist in Ontario at the present time; the provincial budgeting process should assist in improving the situation where possible, and austerity in the form of lean provincial grants must be very carefully administered.

Mr Sherlock: I think you will find that because of the complexities of the grant system, our brief is a very technical one, and I certainly do not recommend it as light reading. However, I would like to highlight a few things and indicate that in the second part of our brief we set out some examples of the inequities in the financing of education.

Two basic factors work together to divide Ontario school boards into two classes: haves and have-nots. One is the unrealistically low grant ceiling. The other is a vast disparity in assessment wealth across the province. Assessment-rich boards have the ability to raise significant sums locally to supplement or even replace provincial grant money while assessment-poor boards have no such opportunity.

Some examples will illustrate the point. Using 1990 estimates, the wealthiest school board in Ontario spent an average of \$6,785.50 per pupil. The poorest board in Ontario spent \$3,708 per pupil. The difference in expenditures is more than \$3,000 per pupil. With such a disparity, can equality of educational opportunity truly be said to exist between these two boards? Even taking local circumstances into account, OSSTA thinks not.

Differences exist even between coterminous school boards, between students living in the same community. For example, the Metropolitan Toronto School Board spent \$6,785.50 per pupil while the Metropolitan Separate School Board spent \$4,847 per pupil for a difference of \$1,938.50 per pupil. As an additional example, the Lake Superior Board of Education spent \$4,741 per pupil while

its coterminous separate board spent \$3,707 for a difference of \$1,034 per pupil.

Appendix A in our brief lists more examples. In appendix A, we list the differences in the school boards in the areas represented by some of the members of this committee, and I certainly recommend that you take time to read that.

In part 111 of the brief we talk about specific problems. We say that any additional provincial funding for education should be added to the grant ceiling so that the different wealth levels of school boards are fairly taken into account. At this time of fiscal difficulty, assessment-poor boards are feeling the pinch more because they have less. They need to be protected.

On page 8 of the brief we encourage that an accurate costing of education be undertaken and that realistic grant ceilings be set. On page 9 we offer an idea for major savings. I am sure that all the partners in education are interested in where we can save money. I believe the recommendation we will propose in this area may constitute the largest and most significant difference between our brief and that of the Ontario Public School Boards' Association, which you have just heard. We certainly agree that the largest single component of expenditures on education is teachers' salaries. A move to lower class sizes in some primary grades by the previous government set the agenda for collective bargaining in the province today.

The true costs of lower pupil-teacher ratios must be understood. Based on figures provided by the Education Relations Commission as of June 31, 1991, it would cost over \$450 million to reduce the average PTR in the province by one pupil. If you take into account the increments the teachers will receive, their adjustments in September of this year, I think it is fair to suggest that by next year that figure will probably run to about \$500 million, or half a billion dollars to lower the PTR by one.

If you go back to 1977 when the Education Relations Commission first started to collect statistics, you will find that the average salary was a little under \$18,000 compared to approximately \$50,000 now. We feel teachers are entitled to the salary increases they have gained and so we cannot share the public school boards' association's recommendation that you consider wage guidelines. However, between 1977 and 1991 the pupil-teacher ratio, according to the growth statistics from the Education Relations Commission, has dropped by four. You do not have to be a genius to see that a change of four on today's cost is \$2 billion.

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I am not certain that the ratepayers or anyone has really received full value in quality of education for \$2 billion worth of increase based on a difference of four. We think that if we are serious about saving money in education we have to address this issue. Accordingly, OSSTA recommends that the province mandate a moratorium on the further reduction of PTRs in collective bargaining. There is no concrete evidence that the reduction of PTRs significantly enhances the quality of education.

We are not suggesting any unilateral intervention into existing collective agreements. What we are suggesting is that for many boards where this PTR is spelled out through slippage and other things, the boards are already providing

more teachers than are required in their collective agreement. My own board was doing that. When we were put to the wall because of tremendous capital costs that we were having difficulty meeting, we reviewed and have brought our PTR down to its current level in the collective agreement.

We are constantly being put to the wall by our teachers. We have been trying to give them parity of salaries. They want parity of PTR with our coterminous public school board. We cannot begin to afford it, and I suggest to you that across this province, if our teacher partners could be persuaded on a voluntary basis, not through layoffs perhaps but through attrition and other means, I think we could go back to 1977 levels and not affect the quality of education in this province, and the difference is \$2 billion.

We also deal with provincially mandated programs and their effects on school boards. In general terms we support the OPSBA's position on provincially mandated programs. We also urge that payments out of the pay equity fund announced in the 1991-92 provincial budget be made as soon as possible to school boards.

We deal with transportation grants on page 10. The new method of calculating transportation grants appears to be favourable to sparsely populated rural boards. However it penalizes significantly urban boards that rely on busing. Separate school boards, because they serve the same territorial jurisdictions as their coterminous public boards for a smaller population, are more heavily dependent on transportation. The explanation of the difficulty is on page 10. OSSTA recommends that the transportation grant be amended to provide a higher basic amount per bus in urban areas.

There probably is room for cost savings in the area of transportation. For example, many school boards now operate joint transportation networks with coterminous boards. OSSTA recommends that a mechanism be introduced to provide some financial incentive for boards to review and reorganize their transportation systems. If a sufficient amount of savings accrues to the benefit of boards, the total cost of transportation could be reduced with attendant savings for the province.

On page 11 of the brief we deal with the pernicious effects of flat grants. Some grants provided to school boards are flat grants in which the province pays a per-pupil amount to the school board recipient. Flat grants are a regressive form of funding since they do not recognize the relative wealth of the recipient. If the total amount of funds spent on flat grants were folded into the basic per-pupil grant, the outcome would be far more equitable.

As the Education Funding Model 1991 notes, the province makes board-specific grants in the amount of \$224.8 million. Two of these grants, the compensatory education grant in the amount of \$84.9 million and the declining enrolment grant in the amount of \$15.1 million, are flat grants which unfairly favour relatively wealthy school boards.

There is no hard evidence to support the utility of these grants at the present time. It is also ironic that there is no offsetting increasing enrolment grant for high-growth separate and public boards in the province. OSSTA recommends that flat grants be terminated as a funding

mechanism and that the amounts expended on them be folded into the grant ceiling.

On page 12 we talk about cash flow. We endorse wholeheartedly the recommendation of the Macdonald commission that the province "should transfer funds to boards each month as expenditures are incurred, particularly during the first three months of the calendar year." We note on page 13 that the existing practice of a 7% holdback on grants in the fiscal year ought to be ended.

The same concern about cash flow underlies our comments on the assessment issue on page 14. At the present time, municipalities enjoy windfall interest on amounts collected on behalf of school boards. At the same time, school boards are obliged to borrow money to finance their operations and to pay interest to their lenders. For assessment-poor boards, the additional interest burden makes them poorer.

OSSTA does not believe municipalities ought to be permitted to profit at the expense of school boards. In the longer term, OSSTA recommends that the Education Act be amended to provide for the transfer of funds from municipalities to school boards on or about their collection dates. In the short term, OSSTA recommends that the Ministry of Education and the Ministry of Municipal Affairs co-operate in encouraging municipalities to enter into agreements under subsection 215(3) of the Education Act.

Finally, we deal with capital issues on page 15 and following of the brief. Our recommendations speak for themselves. On page 16 OSSTA recommends:

(1) the average level of support be restored to 75% in those areas of the province where lot levies are not a realistic funding mechanism or where access to lot levy funds has not been obtained, and I believe that is everywhere;

(2) differential local shares be considered for fast-growth boards. Under such a scheme, the ordinary local share would apply to the first school built in a particular year while a decreasing local share would apply to additional buildings built in the same year. For example, if a board were building three schools, the third school might be paid for at a local share of 5%. Such a scheme would ensure that the school board is not left with a crippling debt load. This applies to both public and separate growth areas;

(3) school boards pay no more than their local share of the actual costs of site acquisitions.

We also recommend:

(1) the capital grant plan be amended immediately to reflect the current construction price index and that it be adjusted annually to reflect the annual changes in the construction price index;

(2) furniture and equipment allowances be adjusted upwards immediately, and further that these allowances be reviewed annually and adjusted accordingly;

(3) the ministry's commitment to pay construction costs increase from 90% to 100% of the cost of standard school projects.

The other side of insufficient capital grants by the province is excessive debenture debts for school boards. We set out some technical suggestions for changes that would be helpful in that area on page 17.

You have just heard complaints about the capital allocations process. We reject outright any suggestion that the process has worked unfairly to the advantage of separate school boards. We believe the system works to get money where it is most needed in the province. The reason separate school boards have received more provincial money is explained in the brief on page 18.

Ms Moseley-Williams: It is a good thing we are church readers, because we can do this at a clip. Our conclusions are on page 19. The education funding model does not result in equality of educational opportunity for each student in Ontario. Some of the inequities have been detailed in this brief but relatively few of them can be addressed in the budget. But OSSTA submits that an earnest effort should be made to reduce existing inequities where possible. A number of suggestions have been made in this brief, some of which will require additional provincial funding.

As a general rule, additional provincial funding for education should be added to the grant ceiling and should not take the form of flat grants, which are regressive in their operation. In recessionary times, assessment poor boards have a particular need for provincial assistance.

We appreciate the opportunity of coming to speak to you this morning.

The Chair: I ask that the representatives of each group come to the table and allow the members to ask questions. We will give you a moment to do that.

Mr Carr: I am going to ask a question not as a provincial politician but as the average person would. As you know, with politics over the last little while, the provincial government gives transfer payments and all the transferees, the boards and the municipalities come here and say: "You are not giving us enough money. You are downloading, and it is your fault." Provincial politicians do that with the federal government as well.

As average citizens we are sitting here now, and collectively, federally and provincially, just to pay the interest on those two debts is \$80,000 a minute.

Neither of the groups talked about the funding solutions. You talked about how you needed more money. Nobody talked about where the money is going to come from. Have you been before the Fair Tax Commission, or will you be giving any recommendations of where you would like to see it? Again, I am thinking that from your standpoint it is great. You are saying, "We need more money from the province." As the average citizen I am saying I would love to have my property tax reduced, but if it goes to the province all that means is my provincial sales tax will have to go to 20%. Have each of the boards done anything before the Fair Tax Commission in terms of where you would like to see the funding come and what would those recommendations be?

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Ms Dunning: I would be pleased to make some response to that. First, I am sorry if you read our comments as simply saying we want more money. I tried to be careful to make it clear that the alternative—obviously, we do feel we need to be adequately funded to carry out our responsibility. It would be irresponsible of us as representatives of

our boards and of the children who receive education from us not to point out to you the potential costs of a loss of revenue or of an inadequate increase in revenue. I think we made that clear.

On the other hand, I think we tried to point out there were some administrative changes that could be made that would allow us to make better use of the funds available. There are some choices we are prepared to look at that have to do with the delivery of service. It is not possible to come to you and say we can keep doing everything we are doing and more and it is not necessary for us to have the resources. That, I think, is a dilemma we want to stress to you and to everyone we speak to in government. Recognizing we are in a period of fiscal difficulties, we have to be prepared to take a look at what the choices are before us that need to be made. If there are no resources or if resources are severely limited, like everyone else in society we then have to take a look at what that means in terms of what we can realistically be expected to do.

I will turn this over to my colleagues from the Ontario Separate School Trustees' Association in a minute. Yes, the Ontario Public School Boards' Association is preparing responses to the Fair Tax Commission. We are working very hard internally on a document that addresses issues of mandate, funding and governance to try to arrive at some more effective, efficient and rational way to deliver education at a cost the public can afford. We are very concerned about those issues. At the same time we have an ongoing mandate to deliver service. We are trying to strike that balance, as I trust you are.

Ms Moseley-Williams: I would agree. I had hoped some of the things we were talking to were not just saying that we need to have more money without any responsibility. The fact is that I think the budgeting processes in the boards of Ontario in the last year were brutal. They were not done without a sense of very deep responsibility, because programs were cut throughout Ontario. What we tried to do was not to destroy the staffing in our boards. We did a lot of moving around that does not always make for happy campers, but it was done.

One or two of the boards have put forward resolutions that have been accepted to move into the community to talk with the other school boards and with the councils of the municipalities to see what it is we can do together that respects the mandate of everybody and are ways we can save money. Those resolutions are accepted unanimously in the province. People are going forward to try to do something. I do not think anybody should get the impression the boards just sit there and say, "You give us," because that is not the way it is. We have costs on all the boards in the province that were mandated from here, and they cost a lot.

One of the boards in Toronto told me that just the new UIC is going to be in the millions of dollars for that board. Those are real figures we have to find the money for. When we talk about staffing or what it costs us to have a staff level imposed on us, we have to find the money, and we cannot in some cases. You must know that. There are areas of the province where industry is not paying its taxes. They are telling us that at the Fair Tax Commission.

All of the northern communities are telling you that none of the industries are paying their taxes. If it seems we are coming here as two groups of school boards saying, "Give us more money," that is not where it is at.

Mr Carr: I appreciate that is not exactly what you were saying. You did mention some areas where there would be savings percentage-wise, though you did not of course give any dollar figures because it is tough to look at; I guess in some circumstances you did. My perception is that the savings we are looking at with some of these things will not be all that great percentage-wise, whether it is 10% or 5%; I do not know, although in this day and age anything would be great. I will send a couple of cards along if there are any suggestions before the Fair Tax Commission. I would be pleased to see them because we are looking at the broader sense.

However, in terms of looking at some of the savings, I appreciate there were some concrete proposals there saying, "This is how you can save some money," and so on. One of the areas that was not touched on—the big problem I think was alluded to—is the fact that 80% of the money being spent is in terms of salaries. One of the areas that has been talked about is having year-round schooling. In terms of capital cost savings, there are some people who said that may be it. I certainly have not done any research on it as to whether that would be a savings, whether it could be done and the effect of it. I know right away we would have the teachers against it, and I think I have already said so; as for the parents, I am not sure.

From the trustees' standpoint, do you see any cost savings? Again, it might be a ballpark figure. Percentage-wise, would it be 5% or 10%? Can you give us those figures? Do you think there would be any savings? How do you think we should proceed looking at that, if in fact there could be some savings in that area?

Ms Dunning: Do you want to start on that?

Mr Sherlock: Sure. Mr Carr, my wife is a teacher in Oakville, so I hope you will not share with her the suggestions I am making on some of these things. I think you will find the focus in our brief is not to increase wealth but more to redistribute it.

As far as the school year is concerned, I can tell you that the director of education for the Bruce-Grey County Roman Catholic Separate School Board for years and years has been asking the ministry to look at a revised school year plan. We are based on an agrarian idea that we close the schools in summer so kids can work in the fields, though you do not see many of them out there. The idea of simply scheduling holidays when you do not have to heat the schools would be a tremendous cost saving. There seems to be very little support from parents, teachers or the ministry on that, but I think it is an idea well worth looking at.

Ms Dunning: I think it is consistent with some of the other suggestions we made in our brief. I cannot give you figures—I am not sure anyone can—province-wide; 5% or 10%, I do not have any idea.

Mr Carr: Do you think it would be significant?

Ms Dunning: I think what would be significant would be if local communities were empowered to make those

decisions based on the savings they were able to predict on the basis of the study of their own situations. I think that is consistent with one of the proposals OPSBA has put forward, which is to look at increased sharing and perhaps even the ultimate establishment of confederated school boards which would allow for a reduction in the duplication of services between public and separate boards. I bring that forward gently.

Mr Sherlock: You have to be kidding, Paula.

Ms Dunning: We have made that proposal. We also believe it is very important for the education community to look very carefully at the extent to which the education mandate is being expanded to include the social services mandate. I know that is being studied carefully and there is a significant cost implication to the education community. I think that whole area of service could be managed in a way that was much more integrated. I know that is on a number of agendas and I hope it moves forward with some fruition on those various agendas

Mr Sutherland: I have two quick questions. First, I would like to know what each of your groups thinks voters told us in the municipal elections. My sense is that the vast majority of incumbent trustees got in and that the alleged tax revolt out there, other than in a few isolated areas, did not take place. I would like to get your impressions.

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In terms of some of the savings issues, Betty, we talked about this when we were at a retirement dinner in my riding a few weeks ago. You indicated there were some programs where the general public thinks it is easier for the two boards to work together and have some savings. You certainly indicated they are doing that in the north on busing. You also indicated there are some things certain boards may not be able to afford to go in on together with larger boards. I was wondering if you could expand upon that and then we could get some comments from the public school board after that.

Ms Moseley-Williams: I bet I was drinking wine when I was talking to you.

In the election—I can tell you did not go through this election—the questions that were coming from those tax revolt people—I hope that sounds really decent—were very interesting. First, some of them were 11-page questionnaires to do with collective bargaining. You had to wonder with some of those questionnaires where the agenda was. There were some very interesting turnovers in boards. Some of it was on tax revolt and some of it, well, who can figure it out? I do not know how much of an impact they had. In my part of northeastern Ontario we did not get anything like that. Maybe Paula will speak to it more.

On savings, sometimes when you go to put together a program—I am going to use one we use specifically in Nipissing. It was a good program of sharing. It was a film library. We had to stop it because we could not afford to pay our proportional amount. What it broke down to was that in staying with this larger unit, it was costing us \$11 to deliver a film to a school, and it costs us \$2. It was a wonderful program, but we could not afford that. We are

trying to gather that kind of information so we will have a better fix on it in the province.

The boards that have gone into and are now talking on busing, which we seem to deal with to death, are now sharing buses. I think all of us share buses. In many areas now are they looking to say: "Would one unit do that? In the district of Nipissing, could we have one bus department?" We do not have too many differences in our pupils, but we have a bus person and a half-time secretary. The other department has a staff of 3.5. So if we go together, for our board will it be a bigger saving? In spite of much of the rhetoric that is printed and proposed in some parts of the media, I think the boards in Ontario are trying to find those places where they can save money and provide the same service or better. I hope that answers you.

Ms Dunning: I do not think that is directly related to the question that was asked, so I will quickly say our point is simply that given local autonomy, there should be the ability to make decisions about how far to go in the area of co-operation based on the analysis of the local situation, not based on legislated limits as to how far you can go. We would not propose that anybody be forced into relationships they did not feel were advantageous to their communities. I just want to make that clear.

In response to the question about the election, the tax revolt and the return of incumbents, I am actually going to ask my two vice-presidents to comment on that, because they come from areas in the province where there was more activity than in my own area, which is northern Ontario. I would just say quickly that it is true many incumbents were returned. That may be an indication that the public is aware the issues are more complex than single issues would have anyone believe, but I do not think we can pretend we did not hear a message. I suspect that is what my colleagues are going to say.

Ms Redman: In our area, we had four incumbents go down to defeat and we have eight new trustees out of 20. I really agree with Paula. Luckily and happily, I think the public put the quality of the classroom above fiscal responsibility alone, but there are a lot of organizations out there and it is much more grass roots, coming into a formalized—I am thinking of the industrial coalition and a few groups that are looking to share a partnership with education. They are saying, "If you don't think you can bring in a zero tax increase, let us help you." I think we are going to be looking to a lot more community interest and a lot more initiative in looking at partnerships with trustees and boards than we have seen previously.

Ms Nyberg: In my area of Metropolitan Toronto, the tax people really never got off the ground, but there was one clear message at the door—I have heard it from my colleagues—and that is, they are very concerned about money. Like Karen, they also put the quality of education in the classroom ahead of the money, but they are very concerned about the expanded mandate. They see boards being forced to take over social work, speech therapy, breakfast programs. Although they are very pleased their children are getting the service, they are wondering whether their local tax dollars should be paying for that.

Mr Sherlock: In my area, they were very active and they zeroed in on two interesting subjects: retirement gratuities for teachers, which concern a lot of people in light of the amount of money poured into the superannuation fund, and second, pupil-teacher ratio. It surprised me a little bit because there are a lot of retired teachers in that movement, but they are concerned about the cost of class size.

Mr Phillips: I thank both groups for appearing. I appreciate the work you do for the people of Ontario.

The first thing we are going to face, I understand before the end of December, is the announcement of the grants. I am trying to get some feel from both groups. Just to maintain the status quo, what sorts of cost increases are the boards looking at next year? The reason I ask is that somebody may ask me or one of my colleagues to comment when the grant comes out at whatever it is, 6% or 7%. Will that increase the percentage the province funds, will it hold it the same or will it decrease it?

I saw in the public boards' brief that you have reached wage settlements for 1992 in the 5% to 7% range. If you add both the public and the separate boards' budgets together, what sort of increase are you looking at to maintain the status quo in 1992, and therefore, what grants does the province need to provide to maintain, or ideally build, its share of educational funding?

Ms Dunning: I am not sure I can give technically accurate answers to all your questions, but I can make some references that might help to answer those questions for you.

We took a board, which we will refer to as board X for the moment, and we looked at that board's actual budget—operating expenses and so on—and we assumed a 3% transfer payment. If we do that and if that board flatlines its administrative and operating expenses, if that board manages to settle a 0% wage increase for the second portion, on the assumption that the first portion is already in place through August, if there are no enrolment increases and no assessment growth, in that particular board the result would be a 10% mill rate increase. For instance, if 50% of that board's revenue comes from the province and if there is no increase in provincial support, any increase in that budget is passed on double to the taxpayers. So if there is no increase from the province and there is a 5% increase in expenditures, then a 10% increase goes to the taxpayers. That may help to explain what the implication of very low transfer payments will be.

I do not know if I am clear on the question you were asking about salaries.

Mr Phillips: The province will announce its grants in a couple of weeks and it will say, "Grants to the educational system have gone up X." The first question people will ask is, "Does that mean the province's share of funding will have dropped, stayed the same or what?" I am just trying to get a feel from the public boards and the separate boards. You look at 1992 and you say, "We are just going to maintain the status quo, cut as many costs as we can." What will your budgets go up next year, and therefore to maintain the status quo for the provincial funding, what should it be?

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Ms Dunning: I am going to ask our director of legislation, Bev Allen, to answer that question.

Ms Allen: I think the question you are trying to address is the split between provincial and local funding and the—

Mr Phillips: No. It is very simple. On educational spending in the province next year—add the separate board and the public boards—give us your best cut at what it will go up next year. Then you can say that therefore, there are only two sources of revenue, the province and property tax. The province gives its grant. Just what will the spending go up next year for the public boards, your best cut?

Ms Allen: I think more would be shifted to the property tax base. I do not think one could pull a figure out of the air, not knowing what the transfer payment increase might be.

Mr Phillips: No, it is not the transfer. It is the total spending.

Ms Allen: It is a global figure.

Mr Phillips: Total spending.

Mr Sherlock: Can I have a little crack at the question? As a former trustee, you will appreciate how difficult the question is. Paula, I think, made a lot of excellent points about the costs we are looking at. We read about hydro costs going up 7% to 8%. You will know that many of us have not concluded our collective bargaining for September of this year, so for the last four months of this year we have a pretty good idea of what our increment costs are; we do not know what the base of adjustments are.

I can tell you that at the inaugural meeting of the Hamilton board last night, the chairman made one of the bravest inaugural speeches I have heard in a while. She suggested that the board hoped to hold its mill rate increase at 6%, and in doing so would be required to cut 300 jobs. The 300 jobs will probably be across the board, teaching and non-teaching.

It is a fair question but a very difficult one. I do not have a number to answer you with, but I can tell you that we have cut ourselves to the bone. We are trying to survive. That is what we are trying to do in the Halton separate board.

Mr Phillips: It is just frustrating for me, only because the province has to make a determination in the next couple of weeks on what money it will give you for 1992, and I am just trying to get some feel for the board's look at its total spending for 1992. I think you have determined six of the 10 months, have you not? You have determined your budgets until the end of June, essentially.

Ms Dunning: Just our collective agreements, not our budgets.

Mrs Sullivan: Could I just come in with a supplementary here?

The Chair: If it follows.

Mrs Sullivan: Yes, it directly follows. Have the boards provided an estimate or a projection of the incremental costs of pressures—whether it is hydro increases, unemployment insurance increases, pay equity, increases

attributable to Workers' Compensation Board changes and so on—that come out as a figure of projected increased spending? If you have done that, then to ensure the system remains at its current standard in terms of quality of education, in terms of running an efficient shop without having to impair the quality of education that is delivered, what range of provincial government funding will you need, given those pressures, to maintain the status quo?

Ms Redman: This would be from our local board. We have looked at building the budget. Were we to get between 6% and 8% from the province, it would still cause cuts to keep it under a double-figure increase to the mill rate. Maybe that addresses your question. So with 6% to 8%, we would maybe be able to keep it under a double-digit increase.

Mr Phillips: What board is that?

Ms Redman: Waterloo.

Ms Dunning: We have with us two superintendents of education who might be able to give you more detailed answers on some of the individual boards' points of view, if you have the time and would care to hear their comments.

Ron Sudds is the business superintendent of the Northumberland and Newcastle Board of Education, and I could ask him to make a comment.

The Chair: Perhaps we could address our comments directly to the question, and as concisely and as clearly as possible.

Mr Sudds: In reply to Mr Phillips's question, I guess what he was trying to do was get a broad scope of where we go next year in terms of total cost increases if we maintain business. I would suggest that with the pressures of wage settlements that are already there, with class sizes, with the government initiatives that we know are in place, with the UIC changes—you can go on and on and on—most boards would tell you they are looking at 10% to 15% budget increases on average. You also have to realize we are probably still experiencing about a 3% growth in enrolment, which is a pressure that boards are experiencing. When you put all that together, you are probably talking, on the downside, of 10% to 15%. Obviously, you can massage that, as boards will have to do, but that is if it is just business as usual. Those are the kinds of pressures boards are facing. I think that is what you are hearing, and depending on what the grants are, boards will have to make very tough decisions.

Mr MacKinlay: I would support that. I would add one other factor that is starting to come into educational funding, which is that the assessment base is actually decreasing and that will impact upon the mill rate in 1992. The decrease is coming through the recession and the vacancy of commercial property being reclassified into residential-type definitions. So 10% to 15% expenditures, I think, will be reasonably common among boards as they face the things Mr Sudds mentioned.

Mr Wiseman: I would like to talk a little bit about debenturing. Under what circumstances do you think debenturing is an acceptable form of financing education costs, and what should debenturing be used for?

Ms Nyberg: I know of no OPSBA position on debenturing, so I could not answer. If you are asking for a personal opinion, only when you have no other choice in the world.

Mr Wiseman: Would you feel that debenturing \$26.2 million for a new administration building would be acceptable in the current economic climate?

Ms Dunning: It sounds to me like you are referring to a specific decision by a specific board, and I am not prepared to comment on that.

The Chair: Mr Wiseman, you have had two questions.

Mr Wiseman: Those were pretty short.

The Chair: Yes, I know.

Mr Wiseman: One was supplementary to the other.

The Chair: We will stretch the committee's endurance to a comprehensive longer one, but quickly.

Mr Wiseman: They had three questions.

I guess the reason I asked this is because my constituents are extremely concerned with the fact that in the town of Ajax alone, \$72 million worth of new schools is necessary because of the expansion of the subdivisions and the growth of the bedroom community. Yet the board does not feel that it is responsible to build schools, but will go ahead and debenture \$26.2 million. The \$26.2 million, just to give you a reference, would build a high school or would accommodate the first 12 expansions in new school buildings on their list in the entire Durham Board of Education.

When the question, "Sixty per cent of what?" comes up, my question is, given that they have a policy of not debenturing and have not since 1972, and I think other boards have probably followed suit, how am I to respond to my constituents when they say, "We need the schools," and then the board says, "There's no money to build schools," and yet they are going to debenture \$26.2 million? I have a great deal of difficulty with this, because the number two priority on the list happens to be the school my kids go to.

Ms Dunning: Our executive director, Penny Moss, has indicated some familiarity with this situation and a willingness to address it.

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Ms Moss: I concur with the president that we are not here to talk about local situations. I just want to point out that this is one of the matters that may be significantly alleviated if you would take our recommendations about the role of the ministry and capital grant plan to heart. We have lived with a situation in which the ministry, through regional offices and the provincial ministry, in the end actually determines which facilities get constructed. Boards do not have the kind of flexibility your constituents may be asking for. That is in general. It is not dealing with this particular project in brief.

Mr Wiseman: As supplementary to that, though, but the boards do. It is the responsibility of the boards to build pupil places, and then if they decide to build the schools out of locally funded money, then the process for getting schools built is not as cumbersome as it is if the province is forced to come up with all the capital dollars.

Ms Moss: That is right. This meeting is too short to explore all of these issues, but we would certainly encourage more meetings between members and the association so that we can actually look at levels of independence and why boards make the kinds of decisions they do, which you are clearly questioning.

Mr Carr: It was worth waiting. That was a good question, because that is what I was getting at earlier. That is where the public frustration is. On the one hand they say, "We need more capital funding." On the other hand, they say, "This is where it should come from." I think you have to appreciate that what we are trying to do is look at the average person. The public does not understand all the intricacies of the funding. I have been in it for a few years and I still do not understand it all, as you do not. Then when we do understand it, it gets changed anyway. I think Jim Wiseman hit a good point on what the public is saying. Quite frankly, when they are as confused as they are, they blame everybody. They blame the school boards and they blame provincial politicians because they cannot figure out who it is. All they know is that it does not work. The proportion of the blame probably should be 50-50, if the truth were known.

But I want to get back to the salary issue, since it is 80% of the cost for each of your boards. I want to see what you are looking at. I know some of the agreements have been made. What do you see happening in the next go-round? As you know, school teachers are a very powerful lobby, as the Liberal government found out in the last election. They took all other issues and said, "Only on one issue, only on the pensions, we're going to defeat this government." They worked very hard and I think were successful. I think we saw where a special-interest group did set the agenda and beat some candidates, not based on the overall effort of the previous government but on one single issue.

In the recession when people are losing jobs, when in the private sector people are very fearful of their jobs, and when school teachers who have a fair amount of job security, or have in the past, what do you think is going to happen in the next round? Do you see any situations where, in the negotiations with the teachers, you are able to say: "I'm sorry. We've got this problem. We've got federal and provincial governments spending \$80,000 a minute to pay the interest. As a result, you have job security. You're going to have to hold the line"? Will that happen and will you be successful? If not, what do you look for in terms of increases? What do you anticipate, both on the salary side of it and then the benefits? If you could break those down, because there are two issues.

The Chair: If you have an answer for that—

Ms Dunning: Yes, right, I will sell my answer to the highest bidder.

Mr Carr: I have some great ideas on housing, day care; nobody listens to me, though.

Ms Dunning: First of all, we tell those things to the bargaining units frequently, often and loudly. Whether or not they are going to be more likely to work this time around than they have worked in the past is anybody's

guess. You probably are asking the wrong group. If you want to know whether that is going to be successful, you should ask the teachers what their plans are. I can assure you that boards are not going to be going into this set of negotiations feeling particularly generous. I think our position, which I realize is not precisely the same as that of our colleagues from the separate school association, is that assistance in the form of some kind of wage guidelines would be very much appreciated. In fact, without that kind of assistance we are facing what promises to be a very difficult year at the bargaining table.

I would comment that in terms of the alternative suggestion made in the other brief that class sizes might be addressed more properly than salaries, my feeling is that we are more likely to get value in class sizes than in salaries. I think we would prefer to see some limit on salaries than to get into the class size issue mandated at this level. I am very concerned about the fact that class size clauses in collective agreements vary greatly from jurisdiction to jurisdiction and that it is an area where boards have the flexibility to negotiate conditions that are appropriate to their own situations.

I do not have too much of a guess about what kinds of requests are going to be coming from the teachers. There have been some signals sent from the government. If they are listening to those signals and if they are prepared to follow the guidelines that have been suggested to them, we may be able to come in at a reasonable set of agreements. If they are not prepared to do that, we may have some pretty tough sledding over the next year.

Ms Moseley-Williams: I do not expect negotiations are going to change one iota. I think the demands will be high and unrealistic. Everybody is negotiating now, so I would suspect that we will spend—we guessed it the other night—a minimum of 50 hours a month for the next seven months. That will be just on salaries. We will not see anything realistic about it. We have not had one indication that there is any acceptance within the education community to say that there might be a shortage of dollars in Ontario. We will go in and we will go through the process, but I do not expect it to be a good process.

Mr Carr: My other question is tied in and I know you were interested in maybe adding to that. The situation is, as you know—or maybe you do not—that provincial politicians have frozen their salaries, and I think we are frozen at 1989 levels, if I am not mistaken, and have frozen them for the next few years. I am at \$53,000 because I am one of the 28 out of 130 who does not get any more. So the provincial government has frozen its salaries. That goes by and not too many people realize that, although certainly my wife has noticed that.

What I gathered from you is that you are saying you would like to see a mandate from the provincial government saying, "You're going to get X amount." I think the provincial government could do that, in light of the fact that it has done that with its own members—if it then went and said to the teachers, "In fact, what we've done over the next few years is we're going to freeze ours and we're asking you to take 2%."

As you know, when you do that, groups get very upset, as the federal government found out. Although I think there was a broad base of public support for that, because there was a perception that they should be held, the fact is that when you do that they literally march on the hill and burn everybody in effigy. If the provincial government was to say, for example that the teachers will not get an increase of more than 2%, and that inflation now is running probably at 2% to 3% and has been wrestled to the ground, what do you think the reaction would be from both the teachers and the public and yourselves? Would you like to see that happen? What number should we be looking at?

Ms Dunning: I think it is just a question of who is going to be burned in effigy where.

Mr Carr: I know it will not be me.

The Chair: And the recognition afterwards.

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Ms Dunning: We would appreciate any assistance we could get from the government in terms of keeping the lid on wages. We are not interested in a situation in which there is a great deal of anger, antagonism and hostility out there, but we are going to face it from somebody regardless. I think that if there were a way in which the government could either demand or persuade bargaining units that are dealing with the school boards to keep their demands within the kinds of parameters boards themselves are going to be working within, that would be much appreciated. I do not have a specific number to throw out because we do not have a number; we do not know what we are working with.

Mr Sherlock: Just to expand a little bit on the position we made earlier as to why we feel control of class sizes would be much more acceptable and more valuable than any kind of wage controls, I could not agree with you more on what their reaction will be, and I cannot see this provincial government setting down wage guidelines or controls. I would be rather surprised. It is laudatory that they have done it among themselves.

Mrs Sullivan: They have changed their minds before.

Mr Sherlock: That would be interesting. Paula made the point that money is well spent on class sizes. The Ontario Institute for Studies in Education is the research arm funded by this province. A few years ago they studied the class size question and published a report authored by Ryan and Greenfield. They reviewed all the research. All the significant, reputable research on the class size question was reviewed in that study and the conclusion was that there is no effect. After they issued that study they called in all the partners in education to review that study and they issued a second one called *Clarifying the Class Size Question*.

The representative from the Ontario Secondary School Teachers' Federation, in response to the question, "Should we spend more millions of dollars researching this question?" said no, there is no point because the findings are always the same. Heredity, a child's ability to learn, environment, the incentive to learn, those are the factors that determine educational outcomes.

I am suggesting that to continue to pour money into reducing class sizes is ridiculous. Why I suggested Paula was joking when she talked about confederated boards was for the same reason. I cannot see this government asking the teachers' unions, representing all the boards in the province, to lower their spending to our levels and to increase their class sizes to our levels. It is just not going to happen. It would cost millions of dollars to bring our spending to their levels. The Ministry of Education finance officials do not consider this a serious proposal, and I do not think anybody should. I know it is on a lot of people's political agenda but it is not a serious suggestion.

Mr Kwinter: In my riding the public funding of religious and private schools is a big issue. As a matter of fact, there is a court challenge. I would like to get your reaction. What happens if this challenge is successful? How is it going to impact on your two boards and what fiscal ramifications would evolve from it?

Mr Sherlock: The three commissions that were set up by Premier Davis at the time of funding included what is now known as the Shapiro commission, which examined this question and recommended that those schools be supported. The Ontario Separate School Trustees' Association presented a brief to that commission also recommending support. We feel that parental right is the primary basis for education and that those people have the right to be funded. I think somehow that this province, if the wealth was allocated fairly across the board, could afford to support those systems.

To ask me to give you a number, a dollar figure, I cannot. As you say in question period, with a little more notice we could have had a crack at it but not off the cuff. We have supported, in our submissions, that parents have the right and should have the ability to decide how their children are educated.

Ms Dunning: First of all, the OPSBA is in the process of studying the implications, and we do not have figures to share with you about those implications. Naturally, the implications of further dividing the available funds would have a greater impact on the public system than it would have on the separate system, because the parents in the separate system have already made that choice, and the parents who are asking for the choice are now resident in the public system. What financial fallout would result would impact more on the public system. I think that is clear.

I also think it is fair to remind you that the public sector has repeated in various forums and has taken various opportunities to comment on our concern with fragmentation and with the messages we send out as a society when we choose to educate our children in fragmented and homogeneous groups. I believe those concerns will form part of our response to the desire for public funding of private schools.

Mrs Sullivan: I have two questions that are not particularly related. We have spent a lot of time talking about the expenditure side of boards' budgets. I want to move to the revenue side. We have seen some indication of where a major part of the revenue base change, in terms of provincial moneys going to boards, will have an effect. Changes in the assessment base will certainly have an effect, and

opportunities for income from lot levies will certainly affect certain boards, particularly in growth areas. But one of the things we are seeing is that because of the impact of the recession, some of the projections of a couple of years ago in terms of lot levy revenue are changed.

My community, which I share with Jim Sherlock, is a fairly wealthy community, with a wealthy public board a separate board that is struggling to maintain the same services with equity in the mill rate, a community that is expanding, with concomitant pressures on both boards. Indeed some of the expectations of revenue as a result of the potential of lot levies and so on have now moved away from us, because our communities are not expanding at quite the level we thought they would.

I am wondering what other opportunities you see for revenues coming into the boards, whether from special grants or from corporate involvement in delivery of services, or if we are going to have to stay with similar models in terms of revenue generation as we have in the past. We have talked about the expenditure side a great deal, but where are the pressures on the revenue side as well?

Ms Nyberg: I can attempt to answer part of your question, and that would be the question on the revenue side. Being a trustee in Metro, there has been a number of innovative things done with corporations and sharing of their facilities. I can tell you that many Metro boards—and other boards, I am sure, but I am more familiar with Metro boards—are looking into getting companies to help pay for a number of things, and I see that only expanding. North York has had some very interesting things with the possibility of selling some air space.

The business superintendent from Northumberland-Newcastle, with its growth area board, may be able to answer your questions on lot levies.

Ms Moseley-Williams: In our submissions at the Macdonald commission a few years ago, we suggested there be better co-operation or deals with business, or a sharing of this, and the Fair Tax Commission is also going in that direction. I think that is fine. I hear the other trustee talk about Metropolitan Toronto and I think it might work very well there. But there are many parts of this province where you would be sharing with yourself, because you might be the industry.

Mrs Sullivan: But in the short term, in terms of the immediate crunch we are in now, the revenue pressures for the next budgetary year will be significant. That is the question I am asked. If we are looking to the next chunk of transfers, the shrinking revenue base is going to be a factor as well as additional expenditures.

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The Chair: The superintendent from Northumberland-Newcastle, may I have your name please?

Mr Sudds: Ron Sudds. The issue of lot levies is obviously one that is being debated by our board. I think the problem has been two things. One is obviously the recession, but the other thing is that some of the growth we were planning for has occurred and now, under the current definition, no longer applies as a "growth boards." It is not growth any more because the kids are there or the houses

are there and the potential is there. They are now no longer covered by lot levies under the definition of "lot levies." What you have now is a greater backlog the boards will have to address in their five-year plan that the gentleman was referring to. They have to make some fairly tough decisions around that, and lot levies will not apply.

I think why boards have slowed down in terms of looking at it is that you are still dealing with the immediate. Certainly we are trying to project our strategic planning. Every board does. But you have the issues that are before you.

As to other revenues, basically the province states that there are two: the municipal or local requisition and the provincial government. I also am part of the Fair Tax Commission. The whole question is being investigated and there needs to be some creative thinking. But there is nothing else provided for right now. There are models they have done in the United States, some industry-related. There is no provision for that yet in Ontario. Basically we have two sources of revenue.

Mrs Sullivan: Basically what you are saying is that for the next year there are going to be pressures on the revenue side as well as on the expenditure side, and no opportunity for a positive change on the revenue side.

There is the next question I want to ask. I have a lot of concern about this area. We see some boards in Ontario that are able to provide quite extensive services in, say, speech pathology, social work and special program areas, and other boards that are not able to provide that. With some boards there is duplication of services with other deliverers of those services in the community.

Where do you see the province coming in, in terms of setting standards and funding for programs that we know are needed, say, a breakfast program? We know that if a child goes to school hungry, he is not going to learn as well. Where does the province fit in, in terms of that integration of programs and funding of those programs? Should that be a part of next year's transfers, because more kids are going to school hungry this year than last?

Ms Redman: I would use a slightly different example, child care. I think that one of the keys to this is breaking down interministerial, territorial guidelines so that we can work co-operatively and not duplicate. I think that has to be a message from the top on down.

When I look at child care, the Ministry of Community and Social Services does deliver startup grants. However, at our board, we end up funding from the local educational revenue, \$30,000 with each new child care centre we build, because we are told that we will get \$268,000. In fact we get \$238,000, which means that shortfall has to be made up out of the local taxpayers' pocket. So I guess whether it comes from the provincial pocket or the local ratepayers' pocket, we need to get together. There needs to be better communication and maybe less complication in how we fund that, maybe the licence to co-operate more.

The Chair: Thank you very much. We have gone far over time.

There are a couple of things in the interest of clarification. Concerning your studies of class size, I believe the

research states, and I would like your clarification on this, that reduction in class size make no difference unless the methodology is also changed. Am I not correct, or are you quoting from another study, Mr Sherlock?

Mr Sherlock: I was referring to two Ontario Institute for Studies in Education studies, the Class Size Question and Clarifying the Class Size Question. As I recall reading those, the results were very inconclusive. They really zeroed in on the one factor. Obviously class size affects teacher workload and teacher morale, teacher style, and those do become factors in educational or in cognitive outcomes, but are not significant factors.

When I was at OISE, one of the profs told me the most significant research document in the century was a book called *Inequality*, by Christopher Jencks and others, subtitled *A Reassessment of the Effect of Family on Schooling in America*. A U.S. federal government educationist named James Coleman collected massive data which reached the same conclusions: Heredity and environment are the factors, and the others are probably not very significant.

The Chair: Would you tell me the direction of compensatory education grants? What are they used for? We have all heard the term. Does anyone on the committee know?

Mr Sherlock: I believe it is a flat dollar-per-pupil grant.

The Chair: You have it, Mr Phillips?

Mr Phillips: I want to hear their answer.

The Chair: Compensatory education grants, their direction. Does anyone know? Because we have been discussing it.

Mr Sherlock: I am sure your ministry officials can give you great detail. It is a replacement of weighting factors on a flat dollar basis. Basically, I think our brief addresses the point that the flat dollar-per-pupil grants are regressive.

The Chair: The reason I ask is that I know flat grants are directed specifically to an area so that they can be used only in that area, so I wanted to know what compensatory education grants were for.

Mr Lauwers: I can tell you what they are, reading from this document put out by the Ministry of Education called the Education Funding Model, 1991. The sum of my knowledge is on this page, so if you ask me any further questions, I am not going to be able to answer them, beyond telling you what flat-line grants do.

"Compensatory education grant: Some school boards, because of local conditions, have large numbers of students who are economically or socially disadvantaged, and therefore at risk for academic failure and dropout. Compensatory education programs are aimed at addressing the needs of such students. Financial assistance is provided to these school boards to offset the additional costs of these programs."

The Chair: I thought the committee would require that clarification. I appreciate your coming, and we all appreciate your response to the questions. Thank you so very much.

Ms Dunning: Thank you very much. It has been a pleasure.

Mr Wiseman: We are going to have to go. Do we have time allocation, Madam Chair?

The Chair: We are way over time. I would just like to provide the committee with as much leverage as possible to respond. We had one other walk-on item, and that was the appearance of the Treasurer at this committee.

Mrs Sullivan: Madam Chairman, my understanding is that the committee sits from 10 to 12. It seems to me that we are right on schedule.

The Chair: We are. But we wanted to make sure we could discuss this walk-on item, and that is why I mentioned it at the beginning.

Mrs Sullivan: That is fine, but I think one of the members said we should have time allocation.

Mr Wiseman: Time allocation was not in reference to the time we were concluding, but the amount of time that each party has for asking questions.

Interjection: Was that not even?

The Chair: I thought it was quite even.

Mrs Sullivan: I thought the issues were explored.

Mr Phillips: I think the Chair is doing a good job.

The Chair: I thought it was quite even.

Mrs Sullivan: That is right.

The Chair: If we could focus in on this second item, you had asked that the Treasurer appear before this committee. The Treasurer can appear before the committee between 9 and 10 am on Thursday, December 19. Is there any discussion about that?

Mrs Sullivan: We should have an extra hour for questions.

The Chair: The time we have been given is between 9 and 10. We could explore his extending it for another

hour. But can we at least agree that we will accept this time now? Then I will certainly explore the possibility of his remaining.

Ms B. Ward: Or just request that he make his statements and allow time for questions within that hour. I am sure our questions will be sharp and concise.

Mrs Sullivan: I really would urge the Chairman to make a particular request of the Treasurer that he provide additional time to us in that committee. We have had a significant change in projections. We are moving into a period of time where he will be preparing for transfer announcements. I think that a limited question period time will be difficult for the committee. He also wants to speak with us about process. I think it would be useful for you to emphasize that we would like him here for at least two hours.

Mr B. Ward: But if that is not possible, we could mention that he allow time for questions within that hour, as long as we do not get overly ambitious in our preambles.

The Chair: Let me say this to the committee members: I will speak to the Treasurer. I will tell him about your concerns. I will make sure he recognizes that we are wanting him there for a much longer period, in view of the concerns you have expressed, and that failing that, he make his presentation as short as possible so that we can have the rest of the time for questions. Is that agreed upon? That is December 19 between 9 and 10, and possibly extending further. That being settled, I declare the meeting adjourned.

The committee recessed at 1151.

AFTERNOON SITTING

The committee resumed at 1554.

ONTARIO COUNCIL OF REGENTS
FOR COLLEGES OF APPLIED ARTS
AND TECHNOLOGY

The Chair: I want to welcome the Ontario Council of Regents for Colleges of Applied Arts and Technology to our pre-budget consultations. I believe you have been given 15 minutes to present. The committee members will then ask you questions.

Mr Johnston: I am Richard Johnston, the chair of the Ontario Council of Regents for Colleges of Applied Arts and Technology. Accompanying me are Peter Milner, a member of the council of governors of all the boards of governors of the system, Keith McIntyre, chair of the council of presidents and president of Mohawk College in Hamilton, and Christopher Trump, a director at the Association of Colleges of Applied Arts and Technology of Ontario, which basically serves the aforementioned organizations of the community college system.

I hope that in the future the community college system, as it gets invited to come before legislative committees, will be understood to be composed of these three prime bodies, together with the employees of the system, who are represented by the Ontario Public Service Employees Union. As the university system is often invited with its various parts into the budget process, we hope we will be as well. We welcome the opportunity of doing it together. We want to emphasize that we enjoy the prospect of being able to speak for the system from our various vantage points within the system.

We are not here to beg for any special consideration within the forthcoming budget or to whine about the difficulties we face. We will try to describe some of the challenges before us from our various vantage points. What we want to do today is to raise with you some serious questions in terms of the role of the government vis-à-vis the college system. Perhaps in your recommendations going forward consideration of some new approaches to how the college system is viewed in the post-secondary mix and the general education mix would be helpful.

Let me just say that we have two prime streams in the college system. One is post-secondary and the other is training. Keith will give you the statistics, and you have been given some tables by the participants. The demand for our services is rising enormously at this point and of course the dollars are not, given the financial constraints with which we are all faced at this point. This is leading us to some major difficulties and requires a very profound review of how the college system is operated and financed. We are undertaking that review early in the new year. We are not sitting back passively as we have to meet potentially low transfers over the next number of years.

I just want to make a few arguments in terms of how the college system should be looked at, then turn it over to the other two gentlemen and perhaps wrap up for a couple of minutes and then go to your questions.

First, think about where we want to place ourselves as an industrial strategy. The Treasurer has said, this government has said, we wish to compete with western Europe, with Japan, with the United States. We do not wish to compete with Third World countries. Our economy is to be a high-tech, value-added approach. I would suggest that looking at the college system in terms of its training capacity and how it should be changed to meet those new challenges is one of the things you as legislators should really be looking at very seriously.

We are the largest single training body. I would argue that we are dealing at a level of general education which in the next decade or so is also going to have to be considered to be the basic education that one requires in our society. If you look back to the 1950s, one could say that grade 8 was the level of education with which one could survive, grade 10 by the mid 1960s, and grade 12 by, let's say, the end of the 1970s.

Right now, I would suggest to you, all the evidence of the restructuring is that the person who has been trained at a community college with a general education and the vocational skills is much better equipped to deal with the restructuring problems we have at the moment than is someone who has never had those skills. We are now being faced with the fact that, according to the Treasurer the other night speaking with us, between 750,000 and one million people may be among the newly displaced within our society because of the restructuring, many of whom have not got the skills we can provide in the college system.

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What I am therefore suggesting to you is that if we are looking at a new matrix, a new level of general education we require, a new capacity to provide an integration between business and training, you should look no further than the community college system for where to invest. We have the best linkages of any public institution with business. We have wonderful advisory committees, over 700 of them working in the system at the moment with all sorts of participation from the community, so that there is a capacity to link into the very fabric of the community and with business in a way that you could not do if you were starting off fresh at this stage.

But there is a real need to re-examine how you fund us. If it is just going to be transfer dollars at post-secondary level, I think we are up against it in terms of how you are going to be able to use us to meet some of the needs of this society. If, for instance, we have a large number of people on social assistance who we really should be retraining to participate in our society and people are going to come off UI much faster than in the past because of changes in federal policy, you need a system which can move those people off straight assistance and into some kind of re-training package.

I would again suggest that you should be looking seriously at the college level. But you cannot do that under our present financing approach. New and innovative ways of looking at social assistance dollars moving into the system

of looking at WCB dollars moving into the system, and finding new ways of joining with business to create new dollars are going to have to be found.

The impetus should not necessarily just come from our pleading for it from within our self-interest, but rather from a general policy thrust from the government and from a committee like this, which can, I hope in a fairly non-partisan way, sit back and look at the enormous challenges facing us in this economy and try to focus on how best to approach those things.

So my pitch to you today is essentially not just the budget lines we have at the moment and our particular difficulties—Keith will tell you about the increases we have been facing in numbers, as well as the difficulties in straight financing—but in fact to throw on to you the notion that you should be looking conceptually at the framework you would like us to work within. Then we will have the capacity to do it.

We can exist now with no new money, but that will gradually have a negative impact on access. It just has to, that is all there is to it. We will be as creative as we can to make sure that does not happen badly. But if you really want to face the challenge of what is going to be coming forward to us in these next decades, you want to look at very different ways to mandate us as a system than those used in the past.

Let me just turn it over to Peter to talk to you a little bit from the governor's perspective.

Mr Milner: I welcome this opportunity to speak to you on behalf of the council of governors. The council of governors is a constituent part of the Association of Colleges of Applied Arts and Technology of Ontario and it is composed of the chair of the board of every college in the system, plus one regional representative from the northern, western, eastern and central regions of the province. Thus, the council of governors is fully representative of the community college system from the standpoint of boards of governors. Its function is not only to act as a sort of information exchange by means of regular meetings, but also to be, so to speak, the voice of the governors in the system.

I say all this just to emphasize that I am speaking not only for myself and not only for the board of my own college, but for the boards of governors of every college in the system—boards which, as you probably know, consist of people from every walk of life who serve the colleges as governors on a volunteer basis.

The council of governors meets four times a year and it can meet oftener if required by circumstances. It was recently felt that circumstances did require that the council should hold a special meeting, because the college system finds itself in a unique situation at present, and not a very pleasant situation. Consequently, a sort of extra meeting of the council of governors was held last week. At this meeting each delegate was asked to define what in his or her board's opinion were the most critical issues facing the college at the present time.

I have to report to you that there were 17 colleges represented out of 23. Every one stated the very same major concern. The major concern of all colleges at the present time is how to cope with the increased demand for

services caused by the current economic situation. This increased demand, coupled with little or no funding increase, has put a very severe strain on the resources of the college system.

The current economic system, as we all know, means that people are changing jobs or, more often, they are losing jobs. Displaced workers are seeking to be retrained, perhaps for specific skills, hoping to change their career paths or merely to upgrade their general academic skills. Labour adjustment committees—and I happen to be the chair of a local labour adjustment committee where I come from—and individuals throughout the province are seeking help from the colleges in this regard.

At the same time, high school graduates are being urged to stay in school and pursue post-secondary education. Besides parental pressure for this kind of thing and other pressures, they are encouraged to stay in school and pursue post-secondary education, perhaps at the colleges, by the fact that there are virtually no immediate jobs available of the kind they used to get by leaving school in grade 11 or whatever.

So the college system resources, which are already strained, are faced with competition now for scarce space and teaching time between the traditional post-secondary students and an older group of displaced workers seeking skills to make them more marketable. College resources are strained because, just to put it in a nutshell, funding is lagging behind enrolment. Lack of funding prevents necessary additions to personnel and to space.

In my own college, at least the college of which I am past chair, post-secondary enrolment has increased 50% since 1988 with no increase in the full-time teaching complement. Between this year and last year, total enrolment is up 16%. Most colleges can tell a similar story and last week, at this meeting I mentioned, 18 of them did. From Windsor to Ottawa and from Peterborough to the Sault, not forgetting the lakeshore and Metropolitan Toronto, all reported this same strain on their resources.

Productivity is often mentioned. "Why don't you increase your productivity?" It is a good question, but most colleges have already made strenuous efforts to increase their productivity. Major shifts have been made: curricula have been changed, faculty has been overloaded and physical facilities have been pushed to the limit. It is an extraordinary challenge to meet the growing access requirements under the present funding limitations.

Many colleges are reluctantly considering a cap on enrolment because they simply cannot handle any more students. This is a real switch, because for the last 25 years colleges have been competing with each other to enrol students, have been designing courses to attract particular groups of students and, as I say, in fact have been competing with each other. But right now, and you can imagine what a painful decision this is, many of them are really thinking about capping it. What would probably happen is that individual colleges would not cap themselves. The system as a whole would get together and rationalize this capping in some way so that it would be properly managed, not just a kind of an ad hoc thing. But it is a real possibility. If it

does happen, it will have been made necessary because productivity or increases in productivity can only go so far.

Everyone recognizes that financial resources are limited. I am from the private sector. Until I retired I was a plant manager. I am very well acquainted with asking for money and not getting it. Many governors are also from the private sector and they are all taxpayers of course, so they realize full well the difficulty of allocation of resources, which are pretty scarce at the moment.

The colleges are being asked to perform a role more demanding than their traditional post-secondary role, with some retraining. It is quite different now. The retraining demand is growing more and more every day. The post-secondary enrolment is growing and the colleges are facing real difficulty in providing the kind of access which everyone would like to be able to provide.

All college boards are very much aware of the challenges facing the system and all would like to feel that resources can somehow be made available, perhaps not in the traditional way but somehow, to enable the colleges to meet the challenge. That is what they really want to do. They are confident that, if they are given the resources, they can be part of the solution to the problems which the province and the country are facing today.

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Mr McIntyre: Madam Chair, members of the committee, I am pleased to be here representing the administration of the 23 colleges in Ontario.

If I could ask you to please turn to the first page of the handout prepared for you, there is a pie chart that shows where our colleges derive the revenue streams from. The large piece of the pie is the Ministry of Colleges and Universities and that is the stream that funds the post-secondary activity, the certificate and diploma programs.

I would like to spend just a moment on the next couple of charts. The first shows the trend in the revenue stream and the next shows the number of applicants versus first-year student intakes. We are really unable to grow much more with the current situation, as both Richard Johnston and Peter Milner have indicated.

But look at the increase in applications. You can see the trend. This is growing with the pressures for young people to complete high school to get a better job. Besides coming from high schools, the traditional youth market, so many more adults are seeking to come to college. I think that as a government and as a committee, you have to be concerned about more adults applying and competing with the youth from the high schools, depriving the high school leavers of an opportunity to get in.

That battle was fought up in the Sault just recently at Sault College. Fortunately some new current-year money was provided from the Canadian Skilled Trades Education Congress and the federal funding agencies to enable Sault College to take in diploma students who were adults so that they did not end up depriving high school leavers of admission.

By the way, lest you are worried whether graduates are getting jobs, the answer is yes. Even in this economy we are delighted at the rate of placement. That is because we

are colleges of applied arts and technology. We have a work experience component in every program: It is clinical placement, it is field placement, it is co-operative education work terms. It manifests itself in very different ways. So this is not a case of turning out people who are not going to get jobs. Already, as early as now, December, I am hearing feedback about some of the graduate placements coming up this year at my own college.

The final chart shows the trend in college enrolments over the eight years. You can see it has been rising. As colleges, we tried to respond with this piece of our activity, the Ministry of Colleges and Universities part. The Premier met with our group when he was first elected and asked our colleges to do everything possible to respond, and we have. We have demonstrated that. That was done in anticipation of some additional funding. Since, as Peter has indicated, it may not be forthcoming, we look at some considerable challenges.

If you look at the other pieces of the college systems revenue pie in the first chart, note the Ministry of Skills Development portion. That area, where recently Brad Ward was parliamentary assistant, accounts for 11% and is growing. We are delivering programs. That is where we tackle the Ontario skills development offices, the Ontario basic skills, and quite a variety of programs.

The federal programs shown in the pie chart involve apprenticeship. That money moves through Ontario through the Ministry of Skills Development and the Canada-Ontario training agreement. That part is also growing. We are so pleased that the apprenticeship purchases have been increasing dramatically. Compared to four years ago, apprenticeship training in Ontario is up well over 200%.

But now we run into the dilemma that there are not the jobs. Employees cannot be sponsored because the companies are not taking on the apprentices for training. So we may not even be able to spend the money that the apprenticeship pot is indicating, because there are not the indenturing arrangements for the students. We have to find a way to crack that with the apprenticeship review that is going on.

Just look at the other pieces of the pie. Flat-lining or only modestly increasing the MCU grants, a big 55% chunk, forces the colleges and the boards of governors to have to look at these other areas. The tuition fees are set by the minister; we are not free to set tuition fees in our colleges. So tuition fees are a given. There is only a little room left for any entrepreneurial activity to try to create some more revenue to subsidize what it is going to take to keep the students in our colleges or indeed to respond to the applicants' pressure for more admissions.

I would leave the message, Madam Chair, that if your committee is in a position to recommend for budgeting purposes—a lot of policies, of course, come out of the financing arrangements; the financing steers a lot of what we do—we would seek maximum flexibility to be as entrepreneurial and as creative as we can in order to work within these other areas to help prop up the requirements which our collective agreements require to be met for our teaching. I would be happy to answer questions from committee members.

Mr Johnston: As a concluding remark, we are already taking major efforts to cut back our costs. We have a settlement with our sports staff of only 3%, which is really leading the way. They have taken that on very responsibly, at some cost to themselves. Our presidents volunteered to take a salary freeze before the initiatives that came recently from the government.

We are going to look at all the serious questions of how we use our space, what we would like to recommend on tuition, recommendations about being flexible. My belief, however, is that in spite of all those things, if we do not have a new way of looking at the role of the colleges and the overall economic plan, we are not going to address the real issues that are out there in this society right at the moment. That is the challenge I would like to throw back to the government. If it sets the direction, we will try to respond.

The Chair: Thank you very much for your presentation. I am going to open up the questioning. Mr Sutherland.

Mr Sutherland: I have one question on your chart showing college system enrolment by year of study. My understanding is that most of the programs at college are two-year programs, the vast majority, not all of them. I was struck by the great drop in the second-year enrolment. Can you account for that? Is that strictly people dropping out of the system? Is that people going part-time? How do you account for it? If it is dropping out, do we have any way of tracking or improving retention rates? It is something I ask the university when I meet with them as well. The dropout rate is a hard thing to track, to get a handle on. I was just wondering if you could elaborate a bit on that.

Mr Johnston: Of course there is a dropout factor, and it varies depending on the course. But there are also a large number of one-year courses and that reflects itself in that scale as well. Then there are a number of people who opt for other kinds of approaches, such as moving to continuing education streams on a part-time basis instead of staying in full-time, depending on their economic circumstances.

The colleges have been very aggressive. They are trying to address the questions of dropout on a programmatic basis. As you probably know, we have two major reviews going on now, one on prior learning assessment, the other on standards. We think both of those things are going to have a major impact in helping us with the retention.

Mr McIntyre: These charts do not show the part-time enrolment. You could multiply by seven the number of full-time students. We have approximately 750,000 part-time enrolled students in the colleges. We have not shown that for you. In fact, it is an anachronism to think of a full-time student. People coming today have so many other commitments, often being the mature older learners. I tell faculty regularly that it is an anachronism to be thinking of learning in our colleges today as a full-time, steady semester-by-semester activity. We have stopouts, we have dropouts, and we have returns. We have programs that can now be delivered in different modes. You can get diploma nursing in our colleges over two and a half years, three years or two years. It varies. You can now get nursing for the first time at the Sault College on a part-time basis.

Those are some of the kinds of responses we have made, and you are right, it is very difficult to track. I would say, however, that our retention based on the statistics we have would be higher than most other jurisdictions in Canada, and maybe higher than most in the United States. That is because of the student success strategies that are pursued and the fact that we are so oversubscribed. The applicant ratio indicates high oversubscription, so the people who do get admitted are highly motivated. In health sciences, which is very oversubscribed, and applied arts, overall attrition runs 10% to 15% at most, and that is very, very good.

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The open admission areas where we have the greatest trouble still are general business, because it is not a very highly focused occupation, or general technology, where, until you get in and find your way into civil or mechanical or whatever the case may be, there tends to be a lot of sorting out and career exploration going on.

Mr Carr: I was pleased the other week to spend the morning with all the MPPs and MPs in my area visiting Sheridan College. We had a really good chance to get together with the people there, and they were giving us the statistics on the percentage of jobs. You are right that the colleges are doing just a terrific job getting people into marketable skills.

One of the questions that came up with regard to funding, and I notice you have it on others, is the tremendous market out there now in industry, which years later is finally realizing it has to have skilled people, and the training market for private companies that are doing training, whether it is something as simple as learning Lotus or computer training or some of the more advanced ones. Sheridan told us about some of the aggressive programs they have with, for example, Ford, where Ford needs a training program and will work with the people at Sheridan.

I was wondering, gentlemen, what your thoughts are about going after the business market, where the potential is. I am thinking not just of the large companies, the Fords, who realize it, but of the small to medium businesses that have so many of the people. There is a big market there for training. How are we going to approach the guy who makes widgets and has 10 employees to get some training and, if so, is there any space available? You are talking of people working in the day and going to school at night. How can we incorporate that into offsite training, where you would go in? I see that as one area where we need to be more aggressive. I wonder if you could tell us what we are doing in that area and how far we are along.

Mr Milner: There is one example at Sir Sanford Fleming College in Peterborough, the Fleming Centre for Manufacturing Studies, which is directed at small to medium-sized manufacturers, the widget makers and so on. The stated purpose of this institution is to train everybody from the person on the shop floor to the chief executive officer, employing a series of seminars and specialized courses. The activity of this centre has been a bit limited by the fact that at the moment many companies unfortunately may be shortsighted. But it is a matter of survival for them;

they are thinking of survival rather than of training. That is the short view, I know, but it is one that people do have.

This Fleming Centre is in fact actively approaching small to medium-sized manufacturers in a large area, not limited just to the Peterborough area, to do that very thing. I know the board of the college is talking all the time and pressing the administration to design and deliver courses, as you said, on the shop floor, like at 2 o'clock in the morning on the midnight shift, this kind of thing. It is something that we are very conscious of. I said when I was on the board—I am past chair—and as a manufacturing man myself, you have to be ready to go where they need you and when they need you, and take the course to them. This is something which is being pursued certainly by Sir Sanford Fleming and I know by other colleges.

Mr Carr: With regard to that, are there any thoughts of how quickly we can move to enlarge the "Other Revenue" segment on your college system revenues pie chart? I do not know, Richard, if you want to attack that. What I see, and we all know it, we have so many pressures on the dollars in order to be able to do it.

The reason I say this is that, as you know, the universities are doing it. I had thought of maybe going back and taking an MBA and, of course, when you do that you see the cost now. They are making money on the adult students because they are the ones who are getting paid. It is an area where there is a tremendous need and businesses will pay a good dollar. Where do you see that "Other Revenue" heading over the next few years? Are we going to see that expanding to be a really large part of the pie or not?

Mr Johnston: I think others, in general terms, will have to expand dramatically. It is a matter of what the context for it is, in my view. I will let Keith respond to the particular flexibilities he would like to see built on, but I think one of the areas I would like to see us really concentrate on in a policy sense is what relationship colleges should have with the Ontario Training and Adjustment Board and how that all gets co-ordinated. One of the things I am very worried about is fracturing the training culture, if I can put it that way. That is where we need a context from government about where it sees the colleges situated to deal with that process.

The direct-purchase stuff is being handled very aggressively in all the colleges. That helps you with the actual plan for that actual plant, if I could put it that way, but it does not help you meet the access issues as they are coming from the generally disfranchised person who has just lost his or her job and has no real hope for the future without major retraining. So I would want to separate out that direct purchase of service thing, which I think we do very well at this point, and the notion of how we should be co-ordinated with the training approach. But I know Keith is very anxious that we be given more flexibility in terms of how we can access other dollars.

Mr McIntyre: The other revenue, if it just grows because of responding to other business opportunities, does not necessarily enhance the side where the shortfalls are, you see. You either have to have additional profit or additional contribution to overhead coming from it. There is a

trend now from the federal government side on its purchases, as well as from some of the OTAB and the MSD activity, where they want the colleges to tender bids and compete for the training on a competitive basis.

We are free to respond. We can respond to however much activity is there, and we do. But if the employer wants that person to access the publicly funded, heavily subsidized activity—by the way, our tuition fees of \$800, which are set by the government and the minister, are only about 9% of the cost of providing that education. That is one of the lowest ratios in North America. It is a pretty good bargain when you consider that after two years a graduate can be employed at somewhere from \$18,000 through \$26,000.

The answer is complicated, because the structures that have grown up have mainly come from this area. In 1966-67 the colleges were set up to address just this area. There was little, if any, of this other activity. The retraining came from the school boards and then there was the apprenticeship program.

The point I have made to Richard and others is that we need increased flexibility. Our collective agreements, for example, are set up by legislation under this side of the House, and I do not have the flexibility to respond quite the way that you would like to see when the training wants 30 hours delivered next Wednesday, starting Wednesday, Thursday, Friday.

We need considerably more flexibility in a variety of areas. If we had more time, we could perhaps outline some of those opportunities. If the students in Windsor, for example, decide they would like to put on a little bit of an add-on to the tuition fee, perhaps they could vote as a student body for \$20 a person to enhance their athletics or their library resource centre at St Clair College. What I am saying is I hope that our government will allow that kind of flexibility to happen in Windsor. It will be different in Kingston, it will be different in Peterborough and it will be different in Hamilton, how each is able to respond.

University Hospital up in London is selling prostheses in order to overcome the shortfall. It is marketing this wonderful equipment with robotics technology in order to subsidize its shortfall on its side. I think we have got to do the same kind of thing as colleges in spades. We just have to do that.

Mr Phillips: I have a short time frame, because the grants are going to be announced in the next couple of weeks, and I want to be as helpful to you people as I can. Then there is another debate around OTAB, which I think is going to be fascinating, absolutely fascinating, as they privatize the stuff. Where that all leads will be interesting.

I see your enrolment went up about 10%. My recollection is that grants lag enrolments by two years. My simple math says to maintain the status quo you probably need something a little more than zero. What is the college proposal for what the grants should be in the next couple of weeks? Because all of the other revenue sources I think are down the road, big revenue. How can we be helpful to the colleges in understanding that?

1630

Mr Johnston: We were looking at the actual costs and what we would actually need to meet the numbers that have been brought in to try to fill the need. You would probably be talking somewhere in the range of 8%, and we all realize that is not to meet our 10% increase. That would be the general kind of range we are talking about. We realize that is not in the works. In fact, we are presuming something zero to 2% and that we will try to work within that at the moment. That is our assumption in terms of what we think will be coming forward at this stage.

Mr Phillips: Really?

Mr Johnston: Yes. We are willing to try to find ways to work within that, especially if we see some light at the end of the tunnel. Our notion is we know there is not 8% there to meet the real need. We know that. However, we know on the other hand that if we keep looking at it in the same way, we are never going to get out of the box we are in. What we really need now are new ways of looking at how the money should flow.

From my perspective, just taking it from what Keith was talking about, we need the flexibility of our money moving from training through to post-secondary and back and forth. If we are going to do prior learning assessment for people coming out of the workforce to get them into post-secondary programs, I would like to see us do it with the training programs in the college, to be able to have people get advanced standing in post-secondary courses once they have finished a training course, and then allow that training dollar to actually move into post-secondary. That would increase your bulge on the post-secondary side in a meaningful kind of way, again accepting the notion that this is the new base of education that a modern worker is going to need.

Mr Phillips: So what are the colleges asking the government for then?

Mr Johnston: We would have wanted our needs met, but we are basically not asking, we are expecting something in the range of 2%, and then we will manage.

Mrs Sullivan: That is below inflation. You mean 2% above inflation, do you not?

Mr Johnston: No, we mean 2% flat.

Mr Phillips: Did you ever think you would say that, Richard?

Mr Johnston: Gerry, there are a number of things I never thought I would do, one of which would be management in a collective bargaining situation.

Mr B. Ward: I noticed in your stats that the number of second-year students increased quite a bit. I am assuming that is because of the recession. If you have no work out there, you have a tendency to stay in school if you can. Do you anticipate this leaping ahead again for next year as well?

Mr McIntyre: Projections indicate that the large intake from last September will carry on over and be a blip coming through into second and third year, and that is one of the requirements for meeting the expenses. Those are cases where you have to have classes, labs, shops and you have to have teachers.

Mr B. Ward: I know Mohawk College offers a wide range of programs and I am assuming that is similar in other colleges as well. How do you review the programs to ensure that they are effective and meeting the needs of the students as well as the communities, so that we do not have a basket-weaving course that is totally unnecessary? How do you review that, or do you?

Mr Johnston: There are a number of factors. I will let Keith join in as well. One of the basic ones is the market. We basically provide courses that we want to get people jobs for and it is an applied learning. If there are no jobs out there, or people do not like our graduates, they will not hire them. I think we have had a great success, so our courses have been relevant on that basis.

There is also a program review process that is undergone both ministry-wide and with the colleges. Now we are in the process of trying to establish standards across the system so we can say an ECE graduate in Mohawk is the same as an ECE graduate at Fleming and anybody who is then looking at them will understand that as they come out in the system. That recommendation will be coming forward to the ministry in June about how to proceed with that approach to things.

We are missing some system-wide checks, if I can put it that way, in terms of our overall standards. But in terms of the relevance of the programs, I think they are really driven by the take up. All the college boards are very sensitive about the response of the business community to their programs and whether or not they are finding success.

There are 700 advisory committees involving business people, labour and community groups across the province operating with the college system, and they tell the college administrations when they think the programs are getting out of whack. It is another very good local accountability check.

Mrs Sullivan: I am interested in your predictions of operating revenue needs and your expectations. I am also interested in what you have to say about changing the funding and financing system. Surely if that is going to occur, it should occur relatively quickly.

I suppose if I were going to compare it to any other system it would be a change in health care from one positioning to another, with a need for an injection of funding to get the thing moving. What kind of level of injection of funding do you see for that transitional period, where you get into a rationalized co-operative approach without being in the kind of awkward purchase service situation you are in now?

Mr Johnston: That is a very hard question to answer at this moment. I am hoping we will be in a position to answer very precisely by about September or October of this coming year as we really start to focus on these issues seriously.

It would, however, be much easier for me to give you an answer by then if I knew what the expectation was from government about what our role is. If our role is to be a primary agent of reintegration of those people who are being displaced in the restructuring, then that has one set of needs for injection. If it is just a refinement of what we are doing and you are going to give us some specific goals

of access around certain identified groups, certain unemployment districts or however that was approached, that would have another set of implications for us. If we are going to have more flexibility in how to move between training and post-secondary, it also provides us with another set of expectations.

My own belief or bias at this point is that this, as a set of public institutions well integrated into the community and with the business community, should become a major policy mechanism for the government to meet the restructuring goals that we have. That would speak to a major injection of dollars, but I would hope dollars that are really training based but flexible.

Mrs Sullivan: Can you ballpark it?

Mr Johnston: Again, it depends. If you have numbers that are as high as 500,000 people or so that need that kind of assistance over the next few years on top of what we normally produce, our post-secondary has presently 110,000 people in the system, so you are talking about a quantum leap of investment.

Mr Wiseman: I would like to explore a little bit what is actually happening in the colleges from the point of view of pupil-teacher ratio.

I have met with Durham College and they went through all their funding and what they have been doing in terms of administration. They have distributed the administration load over all the departments so that in effect the administration costs are way down.

I would like to hear a little bit about PTR. They have also said they have increased by two hours a week the amount of teaching time their instructors are putting in and they have expanded the amount of time they are using for preparation. Some of it is coming out of private time, so the amount of time per week is decreased.

Could you give us an overall example of whether that is the exception or the rule and how we as a government could better reward the colleges that are doing it effectively and perhaps not reward the ones that are doing it poorly?

1640

Mr McIntyre: That is a really tough question. All of the change that has to be implemented in curriculum has to be done by the staff. The new programs you have heard us talk about that we have to be mounting in new areas and new occupations that are coming on stream all the time, all that work is done in the non-teaching time. The actual teaching time—if you are referring to the pupil-teacher ratio, we have a formula in our college system that helps ensure a quality of instruction. We had a strike in 1984 over that fundamental issue.

Our system has grown and grown without resources matching to the point where class sizes had been pushed to enormous limits, not anything like the way they had been pushed in the universities' case, but that is the difference. We are teaching institutions; we are not research institutions. We have to be accountable for quality teaching and performance on that side.

You could say today the balance between quality, class size, preparation and evaluation has been brought into a reasonable context in the formula. I do not think there is

anybody in our system who would deny that is a valid balance. As always, in teaching, as in many professional occupations, a person can do far more than the minimum, and it is done by a lot of people. When you work week-ends, you do your preparation at nights and all that sort of thing that is not able to be factored into the formula as hours of delivery.

The hours you are referring to are the classroom presentation hours, and that has been fixed by formula, and yes, because of the way the formula works in terms of size of class, the bigger the classes go, the smaller the hours. It is a simple tradeoff unless there is a structural change in that approach or we could find some other way to deliver the education through telecommunications, video methods or something like that.

The ratios, for example, in nursing are defined by the acts under Health—10 to one. We cannot break that. I cannot put 20 nursing students in a ward. First of all, the hospitals would not let us in, and second, the nurse teachers would refuse to take them because of the liabilities. The law requires a maximum of 10. We have a lot of restrictions in the apprenticeship area; that is true. In many areas we have those restrictions, but we do not have pupil-teacher ratios in quite the same sense as you have them in elementary and secondary education.

Mr Wiseman: My supplementary question deals with this as well. With the kind of increase in enrolment that you are talking about, do you have the physical plant available to meet that need?

Mr Johnston: I think that is a very good question. We need to review how we use our physical plant. In many areas it is highly stretched because of the increases we have seen in the last number of years. Approaches of doing things offsite, as have been talked about, are ways around that issue. For instance, moving to a year-long operation is another means we could look at in an organizational structure of trimesters, etc, with all the complexities that would be involved with that.

What you got a hint of from Keith was that we have over 500 programs in the college system doing all sorts of very specific applied learning. Many of them have legislative requirements or apprenticeship-dictated hours and all that kind of thing. It is not easy to have all the flexibilities you would want when you have that kind of very complicated mix.

We would need more physical plant; I think it is true. But on the other hand, when I was at Mohawk one of the difficulties with the college was that there has been a desire on the part of government over the last few years to reduce the amount of rented space we use in the community and to try to consolidate our campuses. It has been going on for a few years now. That in some ways is counterproductive when you want to reach into the community and find ways of being flexible in reaching some of these training needs. I think that needs to be broached again.

I can understand the economic reasons that were pushing it for the last number of years, but at this stage there is lots of rental space available in a lot of plants all over this province at the moment. We have been very well

accustomed to using those kind of facilities in the past. That is essentially how the college system got started in the first place. I think we could meet the space needs if we had the mandate.

The Chair: Thank you. I am going to ask Ms Ward to close off the questioning. Do you still have a question?

Ms M. Ward: Yes, just one very quick question about the second chart, the applicants versus entrants. I wonder if you could tell me how much of that is really denied access or whether there is a certain element that is duplicate applications, because the entrants and the applicants are about double for 1991.

Mr Johnston: That is a very useful question because we are just changing our system and Keith can speak to that.

Mr McIntyre: The system will be completely clean in about a year and a half's time when we have a central application system established and parallel with the university application system. We are also going to have our centre in Guelph for our hoped-for connections some day in the future in databases. But we can assure you that the duplicate applications probably are no more than about 5% to 8%.

The reason we can say that confidently is because those who do not get into our colleges are now having to enter the private vocational schools. There is a tremendous growth going on there. People are paying \$3,500. I have in my own community the Hamilton campus of the St Catharines Business College. I have the Hamilton campus of the Toronto School of Business. They are growing and people are paying that kind of money and they are getting OSAP, so we know that the denied access is having an effect. Some of them are going even to the United States to get the education. It is clear that the demand is real.

The Chair: Thank you very much. We appreciate your coming and making this presentation to us. I am sure the information will be helpful in our considerations and our reports.

Mr Phillips: Why is there 2% in the budget?

Mr McIntyre: Might I say that it was Richard who said we could stay with 2%.

The Chair: Now it is out.

Mr Johnston: Keith is the big spender.

MINISTRY OF TREASURY AND ECONOMICS

The Chair: The second item on our agenda today is the Ministry of Treasury and Economics. You asked that they return and I know you are anxious to discuss with this group. Will you identify yourself as I call you? Mr Alan Puttee, Mr Tony Salerno, Ms Phyllis Clark and Mr Steve Dorey. Thank you very much. You are going to make a presentation first, are you not?

Ms Clark: We came back to reply to questions, actually. A few questions had been posed the last time on the economics issues. We could deal with those first if you would prefer and then answer questions. Alan Puttee can answer questions on intergovernmental finance. Tony Salerno is prepared to answer questions on fiscal policy. Steve Dorey and I can reply to the economics questions. If

you want us to start, we would start on the other questions or we could just entertain questions from the committee.

The Chair: Would you start on the questions that you have here?

Ms Clark: Sure. The first one was on Ontario exports, and the question was, are Ontario trade data available for August, as is the case for Canada, and what do they show?

We do not get merchandise trade data on a month-by-month basis, only on a quarterly basis, and we will not get the third-quarter data until December. What happened in the second quarter of 1991 is that we had Ontario's total real exports rising about 37% at annual rates. Most of that was due to the gain in auto exports. That was following a decline in the first quarter for Ontario of 15.3% on annual rates. We went up in the second quarter to 36.6% of real rates growth. Canada, on the other hand, declined in the first quarter of 1991 at 5.2% and rose 22.2% in the second quarter of 1991. So that was that question.

The next question was with regard to household debt being higher in 1990 and 1991 than it was in 1982. The question here was, "Are Ontario's household debt levels reflecting the severity of the recession?" What we gathered here was the Canadian household debt as a percentage of personal disposable income.

In 1982, consumer and mortgage debt totalled 43% as a percentage of personal disposable income, and it had risen by 1991 to 65.1%. This was primarily mortgage debt however. That was 44.5% and 44.7% in the first two quarters of 1991 as compared to 26.8% in 1982. But you have to remember there was a commensurate increase in the asset value as well. Housing prices are worth a great deal more now than they were in 1982.

We have more data on that. Perhaps I could just leave the sheet with you. I am sure my sitting here reading numbers is not—

1650

The Chair: How many questions are there?

Ms Clark: One last one. It was on corporate profits and business investment. The question was: What is the current situation for corporate profits and business investments?

Corporate profits have dropped sharply in the 1991 recession. They declined 63.2% over the last two years. This has had a significant impact on business investment, but business investment normally lags behind overall growth in the economy so there is the potential for recovery in that area. However, business spending on plant and equipment in Ontario—we just have the numbers for Canada—in the second quarter was down 1.6% and in the third quarter was down 4.2%. We are just working on the Ontario numbers now, given that revision. We can come back and address that if you want when we do get the numbers revised.

Those are the questions you had posed formerly, and we can entertain other questions.

Mr Phillips: I think Hansard would show we asked them to talk about the fiscal stabilization plan today.

Ms Clark: Mr Puttee can answer those questions.

Mr Phillips: Maybe I will just ask questions then. The Treasurer has said it looks fairly certain he will get \$585 million from the federal government. Could you outline for us the basis on which that claim is made and let us know what discussions may have taken place with the federal government around the probability of getting that? That is fairly key to our financial picture for the year.

Mr Puttee: The basis on which the claim is made is set out in the fiscal arrangements act. The province has to make a claim, and we are in the process now of preparing that. The key thing about the claim is that it must show a revenue decline due to economic circumstances. What that means is that in preparing the claim we have to adjust tax revenues for changes in tax rate and tax structure that occurred over the years in question. We are working on the preparation of a claim for 1990-91. Therefore, the job we are doing is looking carefully at 1989-90 and 1990-91 and adjusting the revenues in those two years for changes in tax rate and tax structure so we get a clean comparison, so to speak. The estimate you mention that was released by the Treasurer in the November statement was for \$585 million for a claim for 1990-91.

Mr Phillips: As I look at the numbers, revenue actually went up in 1990-91 over 1989-90, not down.

Mr Puttee: There have been changes since. One of the key ones was announced when the Treasurer made the announcement.

Mr Phillips: When you subtract the \$1.2 billion, which I understand is the impact of the provincial income tax in 1990-91, revenue still goes up. This is where I am having difficulty in the claim.

Mr Puttee: We cannot just look at the budget numbers. For example, budget numbers for income tax—Tony Salerno can talk more about this—include amounts for prior year adjustments and so on. In order to make this claim for the year in question, we have to take out all of that and get clean numbers, in the case of income tax, for 1989 and 1990.

I would add one thing. Not all the revenues that are reported in the budget are eligible for stabilization purposes. It is own-source revenues plus some transfers from the federal government, one in particular, the established programs financing cash transfers, minus some smaller miscellaneous revenues that will not be part of the claim. Other transfers to the provincial government from the federal government are not part of the claim. There are some things that have to be subtracted.

Mr Phillips: Do you have the numbers now that show there was in fact a decline that would justify a \$585-million claim?

Mr Puttee: No. That is what we are working on in order to make the claim.

Mr Phillips: The Treasury people were in five days before the \$2-billion shortfall. I just feel this is such a fundamental part of the fiscal plan for the year.

The Chair: Can we request those figures at some later time? The gentleman has answered that he does not have them here. Is that correct?

Mr Puttee: The point is that the ministry is presently working on preparing the claim. Once the claim is prepared, it will be submitted to the federal government.

Mr Phillips: Could someone in broad terms show me the numbers in the next couple of weeks? I just look at your budget documents and they show a year-over-year increase in 1990-91 over 1989-90. I realize it is not that simple, but I cannot figure this thing out. Could someone in Treasury sit down with me and say: "You don't understand, Mr Phillips. Here are the numbers, and here's why the claim can be made"?

Mr Puttee: We will only be confident in doing that when the claim is ready to be made. I am not sure when it will be, but we are obviously working on this, as it is an important revenue source, as a matter of top priority. That is, I think, probably the first time it would be possible to indicate the areas where the revenue declines have given rise to the claim.

Mr Sutherland: You mentioned in response to the questions that had been asked before about corporate profits that they were down. I thought I was catching up on reading my papers. I thought I saw there was some indication that in the last quarter corporate profits actually went up a wee bit. Was that an accurate report in the papers, and what is the longer-term forecast? Was that a surprise to anyone?

Mr Dorey: Corporate profits were in fact up in both the second and third quarters. They are currently at levels that are extremely low by historical standards, but these are annual numbers we were presenting to you here. The 63.2% decline really reflects the period of the recession, and we are dating the end of the recession from the end of the first quarter of 1991.

Mr Sutherland: Are they somewhat consistent with where projections were as to how corporate profits were going to respond, or are they higher or lower?

Mr Dorey: Because the drops in the fourth quarter of 1990 and the first quarter of 1991 were more severe than I think anybody had expected, the annual number for 1991 will still be substantially below the forecast that was in the budget. Pre-tax corporate profits in the second quarter rose at an annualized rate of 39.4%—this is for Canada because we do not have the Ontario data as yet—or about 10% in absolute terms, and rose another 15% annual rate in the third quarter for Canada, which is about 4%. Profits have come back about 14%, but over the past two years they had dropped close to 60%. From that very low base, that is a relatively small recovery.

Mr Carr: I want to carry on where Mr Phillips was with regard to the preparation and the talk of the \$585 million. The big concern we have, not to be too sceptical, is the reason it is taking so long is there is concern about its being \$585 million. If the numbers are not ready and you have not been able to prepare them, how did you come up with the \$585 million when the Treasurer basically said that is what we are looking at? Is it a guesstimate?

1700

Mr Puttee: That was a preliminary estimate. There have been, we understand, two other claims other provinces

have made. It is likely that the claim will be based on data which will then change. We will very likely be making amended claims as further data on the personal income tax particularly comes in, since absolutely final data on that for 1990-91 is not available until 1993 I think. There are not too many changes right at the end. It is a bit of a rolling thing. The estimated claim that was indicated by the Treasurer was \$585 million. We will be submitting shortly, as soon as we can. I want to emphasize that as other data which we do not have now become available, particularly on the personal and corporate side, amended claims are likely.

Mr Carr: You are saying "shortly." If we do not get the claim in before, say, the end of the fiscal year, what happens? Would that then be put off into next year, receiving the money from the federal government? How would the timing affect the federal government? In other words, if you do not get it in on time, are we going to be looking at having to, as we have often done, push some of these things into next year? Will the federal government say it would not apply? Do you know what are we looking at that way?

Mr Puttee: Once the claim is made, the federal government obviously has to assess its merit and look at it, and that will take some time. Our expectation is that the claim will be made fairly soon and the federal government will probably be able to respond fairly quickly. I cannot say more than that. That is in their hands.

Mr Carr: With the projections we are looking at, the overall shortfall the Treasurer announced was about \$2.1 billion. With some of the concerns we have there, for example, the stabilization fund and some of the other ones adding up, the big fear is that we are going to be sitting here in that period of time saying we have another shortfall. I do not want to be too critical. Obviously you are giving the answers you need to give, saying the figures are not in. As somebody sitting back trying to look at it objectively, everybody is very concerned. I know you said you want to look at the numbers. What is your best guess right now? Are we going to be looking at another shortfall? When the calculation is all said and done, are we going to be looking at another shortfall?

Mr Puttee: Another shortfall from the \$585 million?

Mr Carr: Are we going to be behind in our projections and have a shortfall?

Mr Puttee: The estimate we made in November was \$585 million, and we are working on the claim. I am not really in a position to say anything else until that claim is made.

Ms Clark: I want to clarify. Do you mean a shortfall in the personal income tax projections we may receive?

Mr Carr: I am talking about the stabilization fund. That is the big fear. In other words, you know what we are all getting at; we think you are not going to hit it. We all hope you do because it is going to be more of a disaster if we do not. The thing is that we are not getting confident answers. I know you are saying we need the numbers and so on and we are going to have to wait and see. I can tell you if I was a betting man what I would be doing now. What happens if we do not get it? What are we looking at?

Ms Clark: I think we will just have to wait to see, as Alan has said, what the numbers are on that.

Mr Carr: But presumably what we are looking at are some more cuts to make it up, or run up the deficit, I would assume. Is that right?

Ms Clark: I think that is a question where we will just have to wait to see what happens when the numbers are in. We did make the best estimate.

Mrs Sullivan: I recall when Treasury officials were here last we talked about the nature of the delay in the actual delivery of personal income tax and corporate income tax income that sometimes leads to what is described politically as a windfall and sometimes leads to what is politically described as a shortfall.

I recall specifically asking when you were here if you had predictions or information. It seems to me that if you did not have it that afternoon, by George, you sure had it the next afternoon, because the announcement from the Treasurer came quickly after.

If you are basing your application for moneys in return from the fiscal stabilization plan for this fiscal year, you will certainly be looking down the line at what are going to be adjusted figures that we will not know until 1992, 1993 or perhaps even 1994, depending on how quickly the feds massage their numbers and see what the actuals really are.

How are you then estimating a clean PIT, since the federal estimates and transfers have been substantially different from the provincials, and how do you have confidence that the \$585 million will hold in a very different economic climate today than existed in your comparator year, 1989-90? You are using 1989-90 as a comparator to show the relative decline, are you not?

Mr Puttee: Yes, that is right.

Mrs Sullivan: Given an economic environment which has already meant a budget and two mini-budgets in one fiscal year, how can you be confident that the \$585 million is indeed the appropriate claim estimate?

Mr Puttee: We need to make a claim on the basis of, and we will make a claim shortly on the basis of, the best information we have at this time. As I indicated before, as time passes some new information will become available, and if history is a guide, it is likely that the claim we make shortly will be amended somewhat from the provision of new data from the federal government on the PIT side and possibly on the corporate income tax side. But we will obviously make the claim on the basis of the best information we have.

I am not sure I am being responsive to your question.

Mrs Sullivan: What discussions have you had with the feds in relation to the claim?

Mr Puttee: Not too many. They know we will be making a claim. When the claim is made, we will likely be spending a good deal of time with them as they sift through it. We will have more contact with them after the claim is made than we have had heretofore.

The Chair: Thank you very much. We are going to move to Mr Carr. We have no one on this side who has requested to be put on the questioning, so I am just taking

them as they come. We will go to Mr Carr and then we will go back to Mr Phillips.

Mr Carr: Just regarding the overall budget figures next year, the concern we have and the fear is—you all know what we are getting at—that next year revenue figures are going to be way off and we are going to be looking at a very bad situation. I should not say very bad, but a different situation next year. I know you are waiting for the figures, so you are not going to be able to know some of the information, but do you see the total revenue that was projected for next year changing or do you still feel confident that the numbers are going to be there? I am thinking now in terms of just on the revenue side.

1710

Mr Salerno: The revenue forecast depends of course on a lot of things. One is the economic forecast, and the economic forecast is still pretty much on course. The economic forecast for next year, I believe, is still on course. It has not changed significantly from what was in the medium-term plan in the budget. There have been obvious adjustments to the base. The base is lower than the base on which we had projected the growth last year, so the aggregate number might accordingly be different but, in terms of a base, the base growth in the revenues, it will not be significantly different from what was projected in the budget.

Mr Carr: What about on the expenditure side? As you know, the problem you folks have in predicting is two of the biggest expenditures are open-ended: social assistance and health costs. Are there any changes anticipated in terms of expenditure? I am thinking in particular of those two areas, but overall, are the numbers—your best guess right now—going to be the same on the expenditure side as well?

Mr Salerno: I cannot say in terms of the aggregate numbers, because we are right now in the process of looking at the estimates for the various ministries. As the Treasurer has often indicated, the budget process this year is very different from the past. There are a number of reviews of programs being undertaken—a number of them centre around those program areas you talked about—to effect savings in those areas. No decisions have been made in any of those program reviews as yet, so it is premature to say exactly where it will end up. Obviously, the government will decide in terms of where ultimately the revenues will end up and where the expenditures—

Mr Carr: But from an economic side, you can end up with the same number by changing things. Let me put it this way. Do you see a lot of adjustments coming up on both the revenue and expenditure sides? I will put it that way because you can still end up at the end with a budget deficit that was projected by making a lot of adjustments on the revenue side and so on. Do you see a lot of adjustments coming up this year?

Mr Salerno: Given that the—

Ms Clark: Let me answer that.

Mr Salerno: Okay.

Ms Clark: Let me just respond to that.

Mr Carr: She takes the tough ones.

Ms Clark: I know, it is like a tag team. I think what you are asking is whether the economic base that we would project revenues and expenditures on is much different than we thought it was six months ago. In a word, no, it is not. We are still forecasting moderate growth with low inflation, and we do not expect to come out of this recession with the same strength we came out with in 1981-82, but we have not changed our minds that much about what is happening with regard to economic growth. As to how economic growth translates into revenue, if the same elasticities apply, that should be the same normal translation we have had before, based on moderate growth and low inflation.

Mr Phillips: Just to confirm the fiscal stabilization fund thing now, just so I am clear, my understanding is that you need approval from the federal government by very early in April to have it in this fiscal year. If you do not have it, then it has to go into the next fiscal year. Is that correct?

Mr Puttee: They have authority for making interim payments, as well as making a whole payment, but obviously the later the claim is being submitted, the less chance that any money would flow in this fiscal year. That is why it is a matter of priority for us to get that claim in quickly.

Mr Phillips: I know you are working as fast as you can on it. Is that a public document once you submit it to Ottawa? Will that be available to the committee to have an idea of—

Mr Puttee: I must say I do not know the answer to that question. I would be reluctant to answer it without checking with our legal advisers. I am just not sure.

Mr Phillips: Could you let us know? I am quite interested.

The Chair: We have had a question and then we had the response.

Mr Phillips: I have quite a few questions, Madam Chair. I do not know whether you want to keep going around.

The Chair: I did want to give some of the others an opportunity to ask. We can get back. We do have another item on the agenda, so I was thinking we would move to Mr Wiseman, then to Mrs Sullivan, and then, if there is time, we could move to you, but you might want to submit your questions. You could think about that in the interim.

Mr Wiseman: I think one of my questions was already answered, but I would just like to make sure I understand it. In the budget projections you have projected how much the economy is going to shrink. How close to being right on were your projections on the shrinkage of the economy? Were you low or high?

Mr Dorey: The recovery began a quarter earlier than we had expected. If you look at the annual numbers, the decline for 1991 looks like it will be somewhat less than the 3.3% that was projected at budget time. The decline in the latter part of 1990 appears to be somewhat larger, so the overall peak-to-trough decline, the total decline in output in the economy was, by our current estimates, 5.4%. I think at budget time we were dealing with an estimate of

just over 5%. So it is very similar in terms of peak to trough. The annual numbers will change a little.

Mr Wiseman: If you are that close, then maybe you could account for the decrease in the \$670 million. The amount of money we got from the federal government was down but our revenues are also down. How do you explain, if you are that close, that you are that far off in terms of dollars coming in and going out?

Ms Clark: I think it is a question of the relationship, as I said, between what is happening with growth in the economy and how that translates into revenues. For example, you have the first flow-throughs into personal income, and we were also fairly close in our personal income estimates for what we thought would happen during the recession. The next linkage from that is how personal income translates into revenues. The question of the composition of personal income comes in.

There are some aspects of personal income that are not taxable, the employer health tax, for one thing. So there is the proportion of that in personal income. That was introduced, so it was a different factor. Then we also have the factor of maybe there is a change in the composition of income internally. We did not have as many people in high-income-tax brackets, so we did not get the receipts available there. That is the basic translation from income into revenues and that is where we think the difference came in terms of forecast receipts.

Mr Wiseman: Can you tell me what areas of the economy are growing and what areas are shrinking more than you anticipated?

Mr Dorey: Actually I can. At the time of the budget we did not have a full accounting for the impact of GST and other factors in the first quarter on consumption. Consumption for the year looks like it will be somewhat weaker than we had anticipated at budget time. The residential sector is a little stronger. Housing starts have picked up a little more than we had expected. The decline in exports is not quite as severe as we had expected. Auto exports have done fairly well through the summer.

What else has happened? In terms of government spending, given the data we have thus far on the part of government spending that goes into the accounts—that is, government spending on goods and services at all levels—that is not quite as high as we had anticipated at budget time, despite the fact that transfers have obviously increased.

That is sort of the compositional effect. Housing has been a little stronger, exports have been a little stronger and the consumer side has been a little weaker than we had expected at budget time.

Mr Wiseman: What about the natural resources area? What is happening there?

Ms Clark: Resource-based industries have generally performed more poorly than things like knowledge-based industries. For example, it been a fairly rough time in the pulp and paper industry, and some mining industries as well.

The Chair: Mrs Sullivan.

Mrs Sullivan: I will let Mr Phillips continue with his line of questioning.

Mr Phillips: Just as an aside, it is surprising, I think, to the committee members that the economy actually is doing better on all fronts, all your major indicators, than you thought at the budget time, at least in 1991: the CPI, unemployment, jobs, gross domestic product. That was not a question.

1720

Mr Dorey: If I can just respond, there are really two issues there. First, the PIT shortfall largely relates to 1990. In fact, there have been some downward revisions for some of the numbers for 1990. We are at the mercy of Statistics Canada on the economic side, and the current estimate produced in October for personal income growth in Ontario in 1990 was 7.5%, exactly the number that was in the budget. That does not seem to be borne out by the income tax numbers, and we are waiting for Statscan to get the tax data and incorporate those into the economic data. There seems to be an inconsistency there that we cannot account for.

The second issue is inflation. Yes, we are doing a little better on the inflation front than we had expected, but that has negative impacts in terms of revenues.

Mr Phillips: You cannot have it all ways.

My question is to try to get an update on what the outlook is right now for 1992-93, which is kind of what we are wrestling with here. The Treasurer has said he anticipates a \$1-billion to \$2-billion shortfall in revenue from personal income tax, and I believe has moved \$600 million of expenditures from this year to next year, a \$300 million repayment to the federal government on income tax. If nothing changes, what is the current estimate of your revenue and expenditures and deficit for 1992-93?

Ms Clark: I will just answer the deficit number. Our current expected deficit is \$8.9 billion, as reported in the budget. Tony, do you have anything in particular to say about revenues and expenditures?

Mr Salerno: In terms of the expenditures, they will fit the deficit that Ms Clark—

Mr Phillips: There we are.

Mr Salerno: She answered the easy one.

Mr Phillips: That is right. You got the expenditures, \$8.9 billion. Give me the revenue. Who has revenue? That will give you expenditures.

The Chair: I must commend this group. You are wonderful. Please continue, Mr Salerno.

Mr Salerno: Seriously, though, you are right. In terms of the revenues, indeed the shortfall, the base this year will have an impact into next year, and the \$300 million that has been shifted into next year, repaid back, will reduce the PIT next year.

In terms of the expenditure, that, as I answered before, is just a matter of where we will be in the processes that are going on right now. So that is to be decided. But with the exception of the personal income tax, which has driven the effect into next year, what we are experiencing this year—not the whole \$2.1 billion, but the part that relates to this year—will affect the base on which the growth for next year is calculated.

One would expect, given that the economic forecast is pretty well on track for next year, that given the normal responsiveness that we assume and given that we are starting from a slightly lower base, the base revenue for next year would normally tend to be lower.

Mr Phillips: I am just trying to get an idea of how much increased taxes we are looking at to get to the revenue numbers you are projecting. I gather it was \$1.5 billion before, so if we are short \$1 billion to \$2 billion, I guess we just add that on.

Mr Salerno: I do not think it is \$1 billion to \$2 billion. I do not think it is in that range.

Mr Phillips: That is what the Treasurer said in his statement.

Mr Salerno: On the personal income tax, the split was about \$740 million this year. That is the PIT reduction. This is partially offset, roughly 25%, in increased EPF. Therefore, the net PIT is, let's say, closer to \$500 million or \$600 million, the reduction in the base on which we start off. Then of course there is the \$300 million that has been deferred to next year.

Mr Phillips: Why would the statement say \$1 billion to \$2 billion then?

Mr Salerno: I do not recall the \$1 billion to \$2 billion.

Ms Clark: I thought that the Treasurer said a \$2.1-billion reduction which will be offset with federal adjustments. He did not talk about it vis-à-vis the base for next year with regard to the \$2 billion. He says the loss is based on information received from the federal Department of Finance, which indicates a total personal income tax decline of about \$2.1 billion, and then goes on to talk about the offset of \$1.4 billion of federal adjustments related to established programs financing and stabilization, but he does not relate that to the base next year.

Mr B. Ward: You must have read it wrong.

Mr Phillips: I do not think I did. I will find the material. My memory is not all bad.

The Chair: Thank you, Mr Phillips. Mr Carr, I will allow you to pose a question.

Mr Carr: I will be very short, because I had promised the Chair I would be.

Looking at the economy, the only way we can recoup some of this is, as the Treasurer said, with tax increases. Looking at the economy as it is now, do you think the economy can stand any more tax increases anywhere in Ontario?

Ms Clark: I just want to say that we did not say there would be tax increases. We just said—

Mr Carr: The Treasurer did. There could be tax increases. Do you think as an economy we can stand a tax increase in Ontario right now?

Mr Wiseman: That is a pretty broad question.

Mr Carr: Okay, if you want me to be more specific, on the corporate side. Of course, what happens is if you increase the taxes, there is a potential to lower it ultimately, because people will leave because of the corporate tax

structure. Looking at the economy today, is there any more room anywhere to increase corporate taxes in Ontario?

Mr B. Ward: That is kind of a political question, is it not?

Mr Carr: No, it is not. I am concerned.

Ms Clark: If you are asking about what I think the impact would be of a corporate income tax on the economy at this point, it is very difficult to answer that without knowing what is the corporate income tax or the corporate tax that you are talking about. I can see your eyes rolling to the back of your head.

Mr Carr: I am just asking in general if you think there is any room, because—

Mr Wiseman: If they are not making any money, you cannot have tax, right?

The Chair: Mr Wiseman, would you please allow the Treasury staff to answer.

Ms Clark: I think that whatever happens, the Treasurer will look at all aspects of any change in either taxes or expenditures to verify the impact on the economy. To the best of his ability and our ability, we will check out what the impacts would be in that kind of thing. I think everybody recognizes that both business and consumer confidence are fragile and sensitive things, and that will be an aspect he will think about when he is thinking about the policy levers he has.

The Chair: I want to express our appreciation for your being here and answering these questions. I hope the additional session will help to bring us to some better recommendations.

Ms Clark: We will get back to you on the one question of the legality of the release of the document.

The Chair: Would you, please.

1730

ORGANIZATION

The Chair: Very quickly, there is some business we have to attend to. A summary of the recommendations from the MUSH sector on the pre-budget consultations has been prepared for you. It will be distributed to you now to make it easier for you to look through those recommendations.

I have some questions about the report that we should very quickly look at while the staff is here. Does the committee wish to table an interim report on these hearings? Do we have any discussion of that, any feelings about it?

Mr Phillips: I would not mind hearing from the Treasurer before we do that.

Mr B. Ward: He is coming next Thursday. I think that would be appropriate as well. I would prefer to wait for the Treasurer on this one as well.

The Chair: He is coming on the 19th. That then speaks to when we are going to table the report. If you wanted to table an interim report by the 19th, it would make that impossible, and that was something you had talked about a couple of weeks ago. If you have changed your mind about that, remember that time was the issue that you felt very strongly about, making sure your recommendations

had an opportunity to be considered before any moves were made.

Mr Wiseman: What kind of time do we have available next week on the 12th? Are we hearing presentations, or can we discuss recommendations for an interim report?

The Chair: There is nothing scheduled for the 12th, no presentations, and we thought the interim report and the recommendations could be discussed during that meeting time.

Mr Wiseman: I think this whole exercise would become somewhat meaningless if we did not issue an interim report.

The Chair: By what date? By the 19th?

Mr Phillips: I would love to hear the Treasurer, so it is just where he is at on—

The Chair: Then that changes the date.

Mr Phillips: When is he announcing the transfer payments?

The Chair: He has not given us a specific date. It is before the end of the year.

Mrs Sullivan: December 20.

The Chair: I have been given information here that we can actually table our report after the 19th; it is just that the House will not be in session. Which do you want to do? The 19th becomes the crucial date, but that is the date when the Treasurer is coming. Remember we discussed that?

Mrs Sullivan: It seems to me, Madam Chair, that in tabling our report to the House, it is appropriate that at the same time it be delivered to the Treasurer. But the Treasurer has indicated to us, and the Premier indicated again today, that this is by far the more open and exciting budget process in the history of time.

We have not seen the grey book yet. Last year there was no grey book because they decided it was too expensive to print. We cannot make an interim report with recommendations in it until we have the grey book, so if the Treasurer is going to bring the grey book, if that is the open and exciting new budget process, I will be very interested in it. Frankly, until we have it, we cannot make recommendations, even on an interim basis.

The Chair: Let me say then that the Treasurer is scheduled to come on the 19th, and I have been charged with the responsibility of asking that we extend the time he has allotted to us. That process you have described, Ms Sullivan, is the very topic of his initial presentation, and so it will be the 19th. Realizing that we cannot table a report by the 19th, if it is the wish of the committee to wait until then, let's discuss that.

Mr B. Ward: Recognizing that there are concerns from Barbara and Gerry, next week we do not have anything scheduled. I think we could read this summary of recommendations, prepare an interim report on what we think is appropriate at this time, and then a final report

may be modified, depending on what we hear from the Treasurer. I think we should move along with the process so that we do not delay the overall report unduly.

I would suggest that we discuss an interim report with perhaps consensus of recommendations next week. After we hear the Treasurer, if we wish to change those or modify them in any way, that is always possible, because it is just an interim report. It is not the final report.

The Chair: Does this committee wish to have a draft without recommendations for discussion for next Thursday, since we do have that time around which we could at least be discussing those issues on which we agree? Would that be appropriate?

Mr Phillips: Madam Chair, the most effective thing to do is to hear the Treasurer and to give him the benefit of our thinking before announcing the transfer payments. I think that is the best thing to do.

I for one do not have a problem with talking about the interim report next week, listening to the Treasurer on the morning of December 19, and if we can finalize it in the afternoon, great.

Mr Wiseman: I would just like to make a comment in response to Mrs Sullivan. I think there are a number of recommendations that can be made by this committee from what we have heard from the various stakeholders who have made presentations here about transfer payments, how they are allocated and the various configurations of regulations they have to meet in order to do their business. The group we heard prior to the Treasury had some interesting comments about what the roadblocks are in terms of delivering the service in the times we are living in. I think there are a number of recommendations we can discuss that have been brought forward by various stakeholder groups. We could make an interim report to the Treasurer in a number of areas, about regulations, administration, delivery of service. I think an interim report is a very useful document at this time.

Mr Carr: I am going to concur as well. Obviously we all want to hear the Treasurer. His schedule is such that he cannot come until then. I think we should be doing some things in the meantime, and next week would be acceptable to do that. As was rightly pointed out, hopefully we are going to be able to give more information to the Treasurer rather than receive information. If something startling comes from the Treasurer on December 19 which we have not already heard, and I do not think it will, then we can make the appropriate changes, but I think we should be working in the meantime.

The Chair: In order to use that time more fruitfully and effectively, shall we ask that a draft without recommendations be prepared for next week's discussions? Would that be agreeable to all? Can I take that as positive? Then we will move in that direction. Thank you.

The committee adjourned at 1737.

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Official Report of Debates (Hansard)

Thursday 12 December 1991

Journal des débats (Hansard)

Le jeudi 12 décembre 1991

Standing committee on finance and economic affairs

An Act to amend the
Financial Administration Act, 1991

Comité permanent des finances et des affaires économiques

Loi de 1991 modifiant la Loi sur
l'administration financière



Chair: Zanana Akande
Clerk: Todd Decker

Président : Zanana Akande
Greffier : Todd Decker

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LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday 12 December 1991

The committee met at 1018 in committee room 1.

FINANCIAL ADMINISTRATION AMENDMENT ACT, 1991

LOI DE 1991 MODIFIANT LA LOI SUR L'ADMINISTRATION FINANCIÈRE

Consideration of Bill 156, An Act to amend the Financial Administration Act / Projet de loi 156, Loi modifiant la Loi sur l'administration financière.

The Vice-Chair: My apologies for being late. I believe our business for the day is Bill 156, An Act to amend the Financial Administration Act. We just had some preliminary discussions as to how we shall proceed.

Mr Christopherson: Yes, we had a chance to chat before the formal meeting started. It would seem that the opposition members would like an opportunity to ask the Treasury staff—and I believe there is also a representative here from the Provincial Auditor's office—for some clarification, maybe some pointed questions and hold some preliminary discussions. Afterwards we would reserve time for questions, and comments from the Provincial Auditor. I understand he is available at 3:30. We agreed prior to this meeting to extend that invitation and I hope members are comfortable with that.

I guess we are just going to fly by the seat of our pants and give everybody a chance to ask some questions because of the shortness of time in which a lot of the details came forward on this act. I suggest that if the opposition is comfortable with what I have said we ask Treasury to give us a short overview to set the stage. Then we could throw it to the opposition members and go in rotation in terms of questions and comments.

The Vice-Chair: The clerk has informed me that the auditor has definitely confirmed for 3:30. Were there any other concerns? Is it acceptable to go with that procedure?

Mr Sterling: All I would like is to go. I have the explanatory notes for the bill, and my desire is to ask questions on the sections as to the philosophy or intent of the sections.

The Vice-Chair: Okay. Maybe we could have the Treasury people give us an overview. Before we begin, if each of you could identify yourselves for the purpose of Hansard and give us a brief overview of the act, then we will have some questions.

Ms Clitheroe: My name is Eleanor Clitheroe. I am the assistant deputy minister in the office of the Treasury and the Ministry of Treasury and Economics.

Mr Stoodley: Graham Stoodley, director of legal services for the Ministry of Treasury and Economics.

Mr Watson: My name is Robert Watson. I am a director in the office of the Treasury.

Ms Tysall: Wendy Tysall; I am a director in the office of the Treasury as well.

Ms Clitheroe: As I think everyone is aware, the Financial Administration Act sets out the responsibilities of the Treasury in managing the financial position of the government. This act has not been substantially revised since the early 1980s.

On January 1, 1990, pension legislation was reformed such that the Treasury did not borrow funds from the pension funds any longer, which had been the practice for many years. Now the Treasury was in the position of implementing a public capital markets borrowing program to replace the financing that had traditionally come from the pension funds. During 1990, staff and procedures were set up to do this, including some of the recommendations in the Financial Administration Act, which would facilitate the operations of the Treasury in implementing its borrowing program in a way that best allows the Treasury to use all the financial tools now in the marketplace and to minimize the cost of financing for the overall borrowing program.

One of the major focuses of the changes is driven by the change in practice for financing the government, and many of the changes in this legislation are to facilitate the public capital market borrowing program of the Treasury. The other area resulting from the budget initiative of last spring is the creation of the capital fund. The changes here are to facilitate the introduction of the accounting framework for the capital fund introduced in the budget last spring.

Finally, there are some changes here which allow the Treasurer, should the credit opportunities be there, to expand the support from financial institutions to non-bank financial institutions—for example, trust companies—so we could have enhanced competition for government business among a wider variety of financial institutions.

Those are the three major thrusts of the changes. I think the primary objectives of the changes are to facilitate the borrowing program, to implement the capital fund and to broaden the competition from whom we obtain the financial services for the government.

The Vice-Chair: Maybe we can open it up for questions now. Did anyone else want to comment from Treasury or is that it for now?

Mr Stoodley: That is it.

The Vice-Chair: Then we will open it for questions. We will start with Mr Sterling.

Mr Sterling: I guess if we go through the sections one by one, it would probably be most advantageous. The first section adds trust companies, credit unions and caisses populaires in which the Treasurer can establish accounts. The second section deals with listing investments and that kind of thing.

Whoever is making the decisions for the Treasurer, how is that individual going to be monitored? I have concerns when people are dealing with public money either on the borrowing or the lending end. How is this going to be monitored by perhaps the Provincial Auditor? Who is going to be watching this individual who is making these decisions?

Ms Clitheroe: The systems we have set up in the office of the Treasury, the division responsible for administering the investment of liquid reserves—that is the question you are raising with respect to the expanded financial institutions' participation and with respect to the lending and borrowing practices—has a set of policies which are authorized by the deputy minister. There are two committees in the office of the Treasury which examine borrowing strategy and policy. One examines borrowing strategy policy and one examines risk management and credit management; sets out a set of guidelines under which the Financial Administration Act provisions are reviewed.

With respect to your question about the Provincial Auditor, the Provincial Auditor will look annually at the financial statements and the practices that have been used throughout the year and comment. Of course, we are always conscious of accounting policies and proper reporting procedures, as well as appropriate risk management techniques, and so we do seek informal advice from time to time from the Provincial Auditor where we feel that some guidance is necessary.

Mr Sterling: How much would the Treasurer be investing in liquid reserves at any one time?

Ms Clitheroe: It depends through the year. The cash flows of the government are somewhat uneven in their demands. In the spring, for example, when we are making major payments, we would have more liquid reserves built up in advance of those higher obligations and we would invest them in short-term instruments such as T-bills until those demands were called upon. At any one time throughout the year, that could vary.

Mr Sterling: Can you give me a high and a low?

Ms Clitheroe: Can you give me a high a low perhaps on what the sort of maximum number on any one day you might have seen over the last 10 years or so?

Mr Watson: I guess it would be billions, \$6 billion or \$7 billion.

Ms Clitheroe: On any one day, in specific investment?

Mr Watson: Oh, no. In specific investment, I think, \$500 million to \$1 billion, something in that range.

Mr Sterling: So the maximum the Treasurer would have at any one point would be \$6 billion or \$7 billion. What about on the low end? What would the cash reserves fall to? You try to always keep them above a certain amount. What is the magic number now? Is it \$1 billion or is it \$2 billion?

Ms Clitheroe: If I could respond to that, we have two purposes for liquid reserves at this point in time. One is the cash management, and we would try to keep a liquid reserve level of about \$4 billion to \$5 billion throughout the year to keep liquid assets to pay necessary bills. On the

basis of the size of the Ontario budget, that is quite an appropriate figure.

At the moment our liquid reserves are in excess of that amount. That is a policy which was adopted by the ministry with respect to this year's borrowing program. It was because markets have been very volatile this year that we would always like to be somewhat ahead on raising our borrowing requirements so that we have in excess of what we would strictly need for cash management purposes to have as a contingency should there be market conditions which would preclude us from raising money at an even pace throughout the year.

Mr Sterling: I guess the concern I have in terms of going outside of the Big Five banks or whatever is that we have had some trust companies fail. What is going to protect the taxpayer from—you are talking fairly massive amounts of money in relation particularly to, I guess, smaller credit unions or caisses populaires or trust companies. If you walk in with \$500 million, that may—

Mr Carr: You can start your own trust company with that.

Mr Sterling: Yes, maybe.

1030

Ms Clitheroe: We have a controllership function in the division itself which is separate and apart from the group which actually does the investing or the borrowing, and its function is to monitor the practices of that group. The function of the controllership group is also to set credit limits and to have an ongoing review process of any of the prescribed institutions in which those that are actually executing the transactions are permitted to invest their money. So there are credit limits established around the institution.

The act allows for all of these institutions to participate in the business of taking deposits where their own particular legislation allows. In the case of some of the institutions, their own particular legislation would not at this moment allow them to be the recipient of those funds. Should that be the case in the future, our credit requirements for a particular institution would then set a standard by which we would be prepared to invest in them or not.

The Vice-Chair: Mr Sterling, just before you proceed, I would like to rotate around with different questions, because some of your colleagues would like to ask as well.

Mr Sterling: Okay.

The Vice-Chair: I will go to Mr Phillips next.

Mr Phillips: One of the aspects I am interested in is the capital account.

Interjection.

Mr Phillips: No, I want to deal with the capital, so I will thank Mr Sterling for his good suggestion, which is to continue on with any other questions in his area first.

The Vice-Chair: Okay, then Mr Carr, you are next.

Mr Carr: My question relates to the same area. You say we have had these people monitoring but that essentially we have been in such conservative institutions that there was not the need for some of this monitoring. Now you say we are going to be expanding that.

As you know, things happen very quickly notwithstanding the fact that you are monitoring them. The audited report that came out from the Northland Bank just before it went under said that this was a great risk. That was from the chartered accountants that audited it.

Notwithstanding that, I am a little bit concerned that we are going to be getting away from what we historically have done, which has been to say we are going to put it in very, very safe—for want of a better term, the strategy had always been for what the investment people call “widows,” where you have very safe investments in very safe institutions.

It would appear to me that the intent is to get away from that, both from the institution's standpoint and also in terms of some of the investments. We could be looking at foreign currency exchange now, puts and calls, whatever, and we are now becoming money managers in our ever-increasing quest for more revenue.

Is that what you envision this bill doing, giving you a lot more flexibility to be more like money managers? Because, as you know, there is an up and a down side. The situation has always been that historically this province has been very conservative in investment and, as a result, has never faced any problems.

In the rapidly changing financial world out there, with institutions going down, and trust companies being one of them, I am very concerned. How will you alleviate the fear of the taxpayers that you are keep our investment safe in the two areas: first, in terms of the institutions, and also in the type of investments you are going to be investing in?

Ms Clitheroe: We do not envisage this moving or changing the conservative practices of the government as they have been over the last number of years. What we do envisage here with respect to the types of institutions is that, where there are institutions which are as secure and safe as the institutions we have traditionally dealt with, they would be eligible to participate on the same basis as those institutions.

Concerning the tools we are able to use in coming to our assessment of the standing of an institution, we use both the American and Canadian credit rating agencies, and set high standards which those financial institutions must have before we are prepared to deal with them. So we are not changing the credit practices; we are simply expanding the number of institutions that meet those credit practices in the Financial Administration Act.

I think you can rest assured that with respect to the deposit practices of the province, the same conservative practices will continue to be in effect.

With respect to the actual instruments that will be used to manage the financing of the government, there was not a need to have the variety of tools—investment or foreign exchange or puts or calls—the variety of instruments that you mentioned. This was for two reasons. One is that many of these tools have been developed over the last 10 years in the financial markets as a result of changing conditions in the markets, so that we are adding to the province's ability to protect itself and reduce its risk in using financial capital markets by adding to its ability to use these tools.

Without these tools the province is, in fact, taking a greater risk. Where it would be able to limit its risk by the use of one of these tools, it is now unable to do that. So I think that with respect to the sorts of tools that are being used, they are being used to implement a borrowing strategy and a subsequent investment strategy that is consistent with conservative practices, but is also allowing us to take advantage of the tools that are available in the marketplace in a prudent manner.

The Vice-Chair: Mr Carr, sorry; just one more and then I am going to move on, okay?

Mr Carr: Okay, I will get very specific, then. As an example, somebody like Royal Trust, which I guess a couple of years ago was one of the most secure in terms of its ratings and so on, sort of the shining star of financial institutions, made a purchase of a trust company in the United States to expand market share and globalize and compete, and has had some difficulties with that, as well as with some of its offshore investments.

Now their situation has gone from being a shining star to not doing quite as well. So again, an investment that two years ago had been put in long-term in a financially secure institution like Royal Trust, which I guess would be probably the most secure trust company—not to say they are in any danger, but you can see how rapidly that changes.

That has not happened with the banks. The banks have not had that dramatic swing because they have been very conservative in their investments. They have not been allowed to buy offshore companies like Royal Trust did. So while it can be a tremendous bonus for companies to be aggressive, like a Royal Trust—because the upside is they could have done very well with some of these investments. So here is something that two years ago we would have said, “A very conservative investment; Royal Trust is the best trust company you can get.” Now, today, not everybody would be saying that.

You see very specifically my concerns, and I want to get very specific. What type of institutions? Can you be specific now? Are we going to be looking at how far we are going to go in trust companies? Can you name some of the ones you are looking at, that you are interested in seeing, with the caisses? Can you give some idea of what you are going to be looking at, or do we have to pass this bill and say: “Trust us. It is other institutions, but we are not prepared to say what they are today.” Can we say it is, you know, these three trust companies in Canada we are looking at and so on? Can you be a little more specific?

Ms Clitheroe: I think we can provide you with some responses with respect to your concern on long-term investments. The nature of liquid reserves is that we do keep them very liquid. We do not put them in instruments that would meet the sorts of concerns that you are expressing.

Mr Carr: No, they change very quickly; even within months things change.

Ms Clitheroe: Large dollars would not be put into long-term instruments for cash management purposes. That would not be consistent with either the requirement of our cash management needs or with our current practices.

With respect to the lists of who would be eligible, the way we will frame the lists is with respect to their credit ratings.

Mr Carr: There are no lists yet?

Ms Clitheroe: We have not provided lists. Those lists would be reviewed on a regular basis, so the list of who is eligible or not for a 30-day investment, for example, would change as needed.

Normally one gets significant warning of concerns in the financial markets when one sets very high credit standards, and the sort of concern you are expressing with respect to a jump from a very high credit standard to a very low credit standard would be extremely unusual.

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Mr Carr: But you do not have time to get out—

The Vice-Chair: Sorry, Mr Carr. I have to leave it at that and move on, okay? Mr Wiseman?

Mr Wiseman: I would like to go down the road on the borrowing side for a minute. I read an article a little while ago that indicated that—

The Vice-Chair: Is this still on the same issue, Mr Wiseman?

Mr Sterling: It is on borrowing and investment.

The Vice-Chair: Okay.

Mr Wiseman: I read an article that one of the situations the federal government found itself in was borrowing, short term, huge amounts of money and found that interest payments on the short term were very high compared to what it could have borrowed if it had gone long term. In fact, they were actually speculating in the market that they could do better and that interest rates would come down. This was on a sum of almost \$110 billion that was part of the deficit over the last four or five years. This has added significantly to their debt problems in terms of the interest being higher than it needed to be, almost to the tune of approximately \$3 billion a year.

How are we going to be able, to the best of our ability, avoid falling into the same kind of short-term/long-term borrowing trap the feds experienced?

Ms Clitheroe: If I can just make a point of clarification, the responses we were making with respect to short-term investments did indeed deal with short-term investments. In response to the question on short-term borrowings, I believe under 3% of our borrowings are in floating rate debt so we have an average term to maturity of our debt portfolio which exceeds 10 years. We have not implemented a borrowing strategy in managing our debt portfolio of shortening the term, so we have not taken on the interest rate risk you are referring to and do not have plans to do so. This act does not purport to provide that capability.

Mr Sterling: But your act does increase your temporary borrowing from \$250 million to \$4 billion. What does that mean?

Ms Clitheroe: Those lines of credit are usually thought of as standby lines of credit as opposed to part of the entire portfolio structure, so that on a \$50-billion or \$60-billion debt one looks for a certain percentage of that debt. On expenditure levels of, say, \$40 billion or \$50

billion, one looks for a certain percentage of short-term availability in the marketplace if, in fact, there was a financial capital markets crisis and it was prudent to look to your line of credit rather than to look to the public capital markets for financing.

The \$4-billion number you are referring to, the size of that line, reflects maintaining prudent access to all sources of capital in the event that such a circumstance is necessary. On an ongoing basis, we do not use our lines of credit over \$50 million, perhaps, and for those reasons we sometimes do that because it is more cost-effective to take an overdraft overnight than it would be to finance that short-term requirement in another fashion.

Mrs Sullivan: I want to follow up on some of the questions of Mr Carr relating to the investment side of the portfolio, and I am interested in seeing that the amendments to this act would include what are some, for governments, riskier propositions in terms of investing, including puts and calls, short sales, futures—dealing in the futures exchanges or in futures investments—not only limited to Canada but to other places.

You have indicated that you would be investing with recommendations from the rating agencies. It seems to me that the rating agencies do not in fact look frequently at matters such as puts and calls, short sales and so on.

I wonder what place the syndicate has in assisting with your investment decisions. Who is a part of the syndicate in Canada, and who is a part of the syndicate in other countries? Presumably, you are not limiting those operations and those options to the Canadian situation, you would be using a syndicate in the United States, in Europe, perhaps in the Pacific Rim, in addition to the Canadian syndicate. I wonder if you could tell us who is a part of the syndicate in each of those or other areas and what role they would have to play in assisting Treasury officials in making judgements about the validity of what seems to me are fairly high-risk investment options for a provincial government.

Ms Clitheroe: We have structured our syndication arrangements so that we have a fixed syndicate for Canada for our foreign requirements in Canada that consists of the major Canadian firms in the management group. Currently, the firms in that management group are Wood Gundy, ScotiaMcLeod, Burns Fry, Nesbitt Thomson and RBC Dominion Securities.

There are a number of other firms in the banking group in the syndicate. We can provide a list—there are another half-dozen firms—if you would like.

Mrs Sullivan: I think it would be useful to have that information. What about other areas, for instance in Europe? Clearly there are European investment bankers involved in those syndicates. I think it would be useful for us to have an update, but I am particularly interested in how those firms on whom you rely to place our notes are involved in providing you with judgements and opinions relating to investments that Ontario would be making.

Ms Clitheroe: The way we have established our syndication arrangements on a global basis is that we have appointed for the province a global advisory panel of firms

that have been selected representing, as you noted, different parts of the world.

In Canada, three of the managers in our Canadian syndicate are also on that global panel: Wood Gundy, Scotia-McLeod and RBC Dominion Securities. In the United States we have a couple of American firms, Merrill Lynch, Goldman Sachs, Morgan Stanley and J. P. Morgan.

In Asia we have Daiwa Securities, Nomura Securities, Industrial Bank of Japan and Yamaichi Securities.

The Vice-Chair: Would it be all right if that list was left with the committee?

Ms Clitheroe: I am sorry, in Europe, there is only one additional and that is the Union Bank, Switzerland, UBS.

We use the Canadian syndicate to provide us advice in Canada on our borrowing requirements, on our borrowing strategies, and our general overall financial management. We have levels of contact with those firms from the president and chairman of those firms down to account officers. We meet with them regularly and my staff have daily contact with them.

On the global advisory panel, we have staff looking at different parts of the world at any given time for borrowing requirements and so we are in contact with those firms when we have an interest in that particular part of the world where we feel there can be cost-effective financing.

It is perhaps helpful to point out that while these firms would provide us also with some advice on the investment side, their primary function is to provide us with advice on the borrowing and syndication side of the business.

Mrs Sullivan: Where else would you receive advice relating to investments in, for example, puts and calls, short sales or futures markets?

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Ms Clitheroe: We have a borrowing strategy committee and a credit and investment committee—the risk management committee—upon which there are technical representatives from our division and, in the case of the borrowing strategy committee, representatives from the Treasury staff at Ontario Hydro.

From there, we formulate our recommendations and our policies. We obtain the approval of the deputy minister and the Treasurer. In researching the areas in which we wish to make a move, for example a particular currency, we would go to the specialists in the field in our syndicate to have their research people provide us with both commentary on the particular instrument, location or whatever the issue was, as well as to provide us with some informal comment on the sort of proposals we would be looking at.

In respect of where we are going to have to deal with a financial intermediary, we would be looking at the rating agencies to provide us with advice on the credit worthiness of the particular institution with which we were dealing.

Mrs Sullivan: Would you not concur that moving into puts and calls and short sales is substantially a riskier approach to an investment program for provincial government than has been anticipated in the past, and why would you think that is a valid approach?

Ms Clitheroe: No, I would not agree with the comment that it is a riskier approach. By not pursuing all the

tools available to us in the marketplace we would be taking greater risk for the province by not attempting to limit our risk, whether it be spread risk, interest rate risk, currency risk or term risk, and by not availing ourselves of the available tools in the marketplace to put parameters around our list, the actions we have to take in terms of financing the province either in the borrowing or investment side, we would in fact be taking more risk by not taking any action.

The Vice-Chair: Mrs Sullivan, I have Mr Sterling, Mr Phillips and Mr Carr. I was just wondering if we could wrap up this section and move on to a different section if at all possible.

Mr Sterling: Mr Phillips has not had an opportunity so I am going to yield to him and then come back.

Mr Phillips: I have one small question, then a larger question. I am sure you have consulted with the financial community on these proposals, the banks, the trust companies and the investment community, because we will undoubtedly hear from them. What has been their response to these proposals? Have they expressed concern in any area?

Ms Clitheroe: We deal with the five major banks and, as I noted, the syndicate and global advisory panel. We would not, of course, ask them to approve or not approve legislation. We also have to be very conscious that they are providing advice, being the very institutions with which we are doing business.

However, the overall reaction to the moves we have made over the past year and the recommendations we are making in the future has been that these are very prudent and conservative financing techniques which the government has entered into.

Mr Phillips: Can I assume from that comment that the financial community has been given copies of the proposal, been asked to comment on it and have expressed no concern?

Ms Clitheroe: With respect to the part of the community that is not the investment dealing community, the banking community, I would like to refer that question to Brian. Perhaps you could comment on the trust company and the credit union side.

The Vice-Chair: If you could come forward to a microphone, please, and introduce yourself for the purpose of Hansard.

Mr Cass: My name is Brian Cass. I am with the Ministry of Financial Institutions as assistant deputy minister and superintendent of deposit institutions and, as such, have responsibility for several of the trust companies that operate in our jurisdiction, as well as the credit union movement. They have for some time now come to us and asked for the opportunity to participate in the government financing, much in the manner as outlined in the proposals. They wish to take deposits from the government and they wish to be seen as investment vehicles as well. For some time now they have sought this type of change and I can assure you they would all be most welcome.

Mr Phillips: A just want to make absolutely sure I am clear on this. Has the financial community been asked for its input into these proposed changes? I am talking now of the banks, the trust companies, the investment community.

Have they reviewed this bill and expressed no concern to the Treasury officials?

Ms Clitheroe: We have not provided them with a copy of the draft bill for comment. With respect to the area of the borrowing requirements, the changes with respect to the techniques for financing the government have been reviewed with our investment dealers over the period of the last year, as well as with our contacts in the banking community. With respect to issues on the capital fund, for example, those would not appropriately have been reviewed with the banks or investment dealers at this stage, having been part of the budget of last spring and part of the consultation process.

Mr Phillips: I am talking just the area we are talking about. Why would you not have sent a copy of the draft bill to these communities, knowing how consultative the government is, saying, "This is coming forward and we'd like any input you would have"?

Ms Clitheroe: If I can just comment with respect to the specific types of activities in terms of the borrowing strategy of the government, we have been in close contact, so that the issues raised here are not a surprise. It is simply that we had not provided the draft bill to them. But I would like Mr Stoodley, who is the lawyer, to comment on the normal procedure.

Mr Stoodley: It is not a normal practice in the case of a bill like this for us to have distributed a draft of it in advance for comments. In the case of the investment clauses that is particularly so, because as I was taking the instructions for drafting this bill and preparing the draft the two things that were clear to me were that many of the clauses, the powers and the agreements that are referred to here—and some of them are repeats of provisions that are in the existing bill—many of those are provisions being used by governments across the country that modernized their acts faster than we did.

Second, I was impressed by the fact that it was being suggested by the people with whom we deal financially, investment advisers and our partners in making trades—I do not want to get too financially technical, because my field is legal and certainly not the esoterica of actually handling these instruments—that their concern was that we did not have the ability to do these things, that we did not have the ability to make the hedges, as I understand, to protect the investments we were making, and that these authorities were overdue.

In fact, as I drafted the bill, and I think to be fair to us all, as we drafted the bill, we did not see that there was an area of conflict or of ambiguity in which consultation would have provided a better product.

Mr Sterling: Can I play the devil's advocate here for a moment? If I was the Treasurer of Ontario and I wanted to interfere with the investment policies of that \$4 billion that are in my hands, how would the public become aware that I was meddling, or would they?

Mr Stoodley: I think you would have to be a little more specific about the kind of meddling you contemplate. It is almost too hypothetical.

Mr Sterling: Let's say I wanted to shore up a financial institution in which we could invest, so I went down to the person and said, "I want you to put \$500 million in trust company X." Would anybody be aware of that? Even though, let's say, the person came back and said, "Well, you know, trust company X is not the biggest trust company in the world and that's going to double their cash reserves," or whatever. Would there be any way of the public knowing about that?

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Ms Clitheroe: With respect to the reporting, the public accounts would be the normal way in which the administration of the liquid reserves would be disclosed to the public.

Mr Sterling: So that would be discovered, what, a year later?

Ms Tysall: We do have a division controllership function within the office of the Treasury. We monitor all of the investment activities that go on and, as has been described, we have some policies and rules set out by the risk management committee and the borrowing strategy committee as well. So we are watching all of those. It would be most unusual to have a variance from that and I think it would be brought forward. Now, I am not sure what the exact process might be, but certainly we have this function that is separate in the office of the Treasury from the people who are actually doing the borrowing and investing. I think at that stage it would be brought forward to some other party, if it was a very significant departure from our current policy.

Ms Clitheroe: There is a fourfold set of controls. One is obviously the annual audit and the relationship that we have with the auditor. One is the controllership function, which is an independent function monitoring the activities. The third is that we have outside of our division, in the government at large, an internal audit function which monitors our activities on a regular basis. The fourth would be the normal management practices within the ministry itself. So I think that one can look to four levels of control through which public disclosure would be effected. This is consistent with, and probably in addition to, normal practices for control of such funds in practice.

Mr Sterling: In effect your answer then is no, there is nothing which would alarm the public in the fact that the administration had been instructed to put a certain amount of money in a certain institution? There would be no alarm bells that would be rung?

The Vice-Chair: I was just wondering if we could have a quick answer, because time is passing us by and I thought there was a genuine interest in other aspects of the bill as well. I would ask everyone to be as concise as possible, please.

Mr Stoodley: Mr Chair, it is genuinely difficult to answer a question like that because it postulates a Treasurer who would be acting against sound and prudent management, contrary to the provisions of the act, and then the question is what we as civil servants would do if that occurred. One is extremely uncomfortable, because the situation has not arisen. One cannot assess the circumstances

in which it would arise and I think there is no fair answer to the question.

Mr Sterling: It is a very important area. It is probably the most important area in terms of this whole investment scenario.

The Vice-Chair: We can continue on this. Accountability issues can be dealt with by a couple of other committees, can they not? Estimates?

Mr Sterling: But the bill is giving the Treasurer some more investment tools. Heretofore he has only been able, as I understand it, to invest money in certain kinds of institutions. We are now saying he can do it in other institutions which could possibly be weaker.

The Vice-Chair: Maybe, Mr Sterling, you could ask your question this afternoon.

Mr Sterling: The concern I have, Mr Chair, is that the present government has utilized other means; for instance, the Hydro issue, when we were talking about the buying of uranium in Elliot Lake. They said, "Okay, we'll use Ontario Hydro as a tool to implement what we consider a political purpose or a public policy purpose as far as the Ontario government is concerned." They said to Ontario Hydro, "You go out and buy that uranium for four times what it is worth to support the community of Elliot Lake."

What if, in order to get proper financing for Algoma Steel, part of the deal was that financial institution X had to have \$500 million to lend to Algoma, and it did not have the \$500 million. The Treasurer walks down the hall and he says, "Look, Joe, I would like financial institution X to have \$500 million."

What I would really like, whenever the policy is changed, is some public promulgation of that change in public policy as to the investment policies. Is there any hope that can be done? Is that a practical suggestion?

Ms Clitheroe: I think the overarching principles in the Financial Administration Act are that the Treasurer of the day manage the finances of the Treasury in a prudent, responsible manner. I think the act does not purport to change that responsibility in any way, so I think the provisions there do not weaken the overarching requirement that the funds of the consolidated revenue fund are managed in a prudent manner. That principle has not changed.

Mr Christopherson: Just to follow up on the question and part of the answer you just gave, and maybe you could answer it another way or expand on it a little bit: What is being proposed is the changing of the schedule of institutions that can participate in the investment process with the government, or rather, with which the government can engage in investment. The mechanism, the checks and balances in the system to ensure that those investments are being done aboveboard and according to Hoyle, are not being changed, is that correct?

Ms Clitheroe: That is correct.

Mr Christopherson: So that the same rules that applied before will still apply in terms of those checks and balances?

Ms Clitheroe: That is correct.

Mr Christopherson: Are those checks and balances much different than other jurisdictions in North America, or even around the world for that matter? Do we have a dearth of checks and balances on a Treasurer that has run amok investing where he ought not?

Ms Clitheroe: In my experience, we have more than adequate controls. Wendy, perhaps you would like to comment if you have any other information with respect to comparative practices in other jurisdictions.

Ms Tysall: I am not really aware that there are many differences between what we are doing and what other jurisdictions are doing. I think they follow similar kinds of reviews and have these kinds of committees that we have set up, with the kinds of limits we have set.

We have tried to look at different kinds of institutions and different kinds of investments, and have indeed set dollar limits for each kind inside the policy committee. We have looked at the credit rating of each of these kinds of institutions and established the policy surrounding that, so we are very careful to check these every time and live within the policy limits that are established.

Mr Sterling: I trust you.

Mr Carr: As you know, Quebec uses a *caisse* as a tool of investment in certain industries, and for want of a better term, also to give greater government control to the economy. There is some talk that is what this government wants to do, and that one of the reasons this is changing is to allow them to invest in institutions that they may set up. Is that why this has been done? So if the government decides to start up—for want of a better word—a *caisse*, that would be an instrument of the government, it could in fact put its money into that particular institution?

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Mr Stoodley: No, that was not the motive. The motive for expanding the institutions in which public money can be deposited was, as Mr Cass earlier pointed out, that it was unfair that the province itself—and remember that this section also applies to agencies out there in communities across Ontario—was prohibited by legislation from using even a safe trust company or a safe credit union for payroll or other deposits of public money. I think that has clearly been the motive for us in expanding the provision of this act so that, given the same concern about the creditworthiness of the institutions that applied when they were only chartered banks, there will now be the authority, the permissive power, for agencies in the province to deposit public money in trust companies and in credit unions.

It clearly does not mandate a deposit in an agency or a credit union or a trust company that is failing, because the primary goal for us, as for most agencies that have money, is protection of the money.

Mrs Sullivan: This is just the last question on the investment side, because I think we were anxious to get on to the capital account. I suppose that what our questions relating to the investment side of the government's portfolio are really concerned about is clause 2(c). The concern relates to the social policy of the government becoming the investment policy of the government. What I see here is the facility for the province to use dead instruments to bail out flagging

companies as an instrument of social policy, rather than an investment policy decision. We have seen Ontario Hydro, for example, in the case of Elliot Lake, being directed to invest in the northern development fund.

We understand some of the difficulties of the credit union movement in Ontario that have been an issue over a continuing period of time. The question of checks and balances that Mr Christopherson raised is not the question. There is nothing here in 2(c) that limits investments to companies that are traded publicly. The investments could be private companies.

There is nothing in this section that would limit the government's use of the Financial Administration Act as an instrument of social policy. What we want to see is social policy coming through other places in government, and a guarantee that it is not going to be coming through the investment policies of the government as a whole. We want it to be coming through the Ministry of Industry, Trade and Technology or through a line ministry, rather than through this section. We want that assurance. I think that is where our unease comes from. We do not want to see social policy as part of this section.

Ms Clitheroe: I would make two comments with respect to the provision that you are referring to. One is that while each provision does not reiterate the overarching principle of prudent management, the overarching principle is there and needs to be applied to each provision separately. With respect to the specific section you are referring to, the normal practice would be that those sorts of investments would be done by way of an order in council.

The Vice-Chair: Maybe we could move on to the next section, and we have several. I believe the main issue that has been identified is the question of separation of capital account, and that is under section 7. We will try to focus some questions on that section. We will start with Mr Phillips.

Mr Phillips: I hate to say it, but I am always mildly suspicious, not of Treasury's motives, but of the government's motives.

Interjection: Any government.

Mr Phillips: Any government, damn right. I listened carefully to the Premier always saying he is going to balance the operating budget but put all the capital into debt. If this were a business—and your paper suggests that it takes about \$4.5 billion to \$5 billion a year of capital refurbishing just to keep the infrastructure up to date—in my opinion, you would be showing a \$4.5-billion to \$5-billion-a-year depreciation cost just to keep our infrastructure refurbished.

Maybe I am being unduly suspicious of this. I think you can clear it up very quickly for me by just imagining this legislation in place over the last five years. I assume from the comments the parliamentary assistant made yesterday that you would report the finances in exactly the same way as you are currently reporting them. In other words, you would say the deficit this year is \$9.7 billion, made up of a \$4.3-billion capital deficit and a \$5.4-billion operating deficit, and that if this legislation passes, nothing changes, that next year's budget summary will be the same format that we see this year, that the financial numbers

outlined, mainly on pages 68 and 69, would stay the same as you currently report them, and that all that this does is enable you to kind of have the legal framework to report the numbers the same way you reported them this year. Is that correct?

Ms Clitheroe: What this does is provide the accounting framework to implement the capital fund. With respect to the reporting in public disclosures, there would be, with respect to public accounts, disclosure of the capital deficit and the operating deficit in the normal course as we have seen it done.

Mr Phillips: I want assurances that the budget, if we pass this, will be reported in the same way as this year's budget, that it will be formatted the same way.

Ms Clitheroe: You are referencing the budget at this stage, and I think what we need to reference are the Public Accounts, which are the official reporting of the annual figures. They are the ones I presume you are going to be looking to the Provincial Auditor's office to look at this afternoon. In that case, the public disclosure accounting policies with respect to public disclosure would remain the same. With respect to the budget, over the years budget formats—pages, tables and so on—have as you know changed from time to time.

Mr Phillips: Can anybody give the assurance of this?

Mr Christopherson: No. I think the question, if I understand correctly—and please correct me if I do not—is, will the format be exactly the same in terms of how it is reported? I cannot give you any assurance at all. I do not think there has been much discussion about the actual format of what the document might look at. Now, there might be some people who have had those initial discussions, but I am not aware of them. I think that Eleanor is clear in saying that all of the accountability you are asking for will be there or it should be. But any assurance that the next budget will be presented in exactly the same format and the document will be exactly the same, except the year will change and the number will change, I do not think I can give you that assurance. I do not think there is anything sinister in that. It just means that the document may look different.

Mr Phillips: I am sorry to keep pursuing this, but I have not got an answer to my question. This is how you report the numbers this year. I think it is on, probably, page 1 of the summary. If we pass this, that is how you plan to report the numbers?

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Ms Clitheroe: The Financial Administration Act does not change how a budget would be prepared or how a budget would be reported. It also does not change how the Public Accounts would be reported or public disclosures would be made.

Mr Phillips: But would the capital fund be reported as a \$4.29-billion deficit?

Ms Clitheroe: The amount that would be in the capital fund for future budget presentations is something I could not comment on.

Mr Phillips: Who can?

The Vice-Chair: Mr Phillips, I am going to move on. We will have more opportunity. As I say, we want to rotate around, so there will be more opportunity.

Mr Phillips: I need an answer to my question.

The Vice-Chair: An answer was provided. Mr Carr.

Mr Carr: I will be going along the same lines. I do not know if I will help get an answer for you, Gerry. If not, I hope you get back to it. The big concern we have right now is this: We do not declare the unfunded liability in our statements of the Workers' Compensation Board, for example. We do not have Hydro's in there. The reason we take that out is the numbers look much better. The \$9.7 billion, if you add the other ones in, would scare a heck of a lot more people, notwithstanding the fact that when we start talking these billions, everybody's eyes, including mine, glaze over. When you are talking about the money, nobody understands it.

The concern we have is that we are going to be putting it into a capital account, not in terms of reporting, so that the public perception will be that the deficit is not running wild. From the standpoint of the public, I guess the double-digit figures are what scares them. There are certain marks they go over.

People now know we are at \$9.7 billion. Next year, when the Treasurer comes up, for political reasons—like Mr Phillips said, it is not you people; you are carrying out the wishes—what may happen is we say we have an \$8.7-billion deficit, which is what we were going to have, but that \$8.7 billion does not include capital, which is another \$5 billion, so we are up to \$13 billion, or whatever. You see our concern is that this will be used as a process so that it can defer the public from understanding where we are going with this deficit, which I think everybody on all sides knows is going absolutely wild.

The big concern we have is that you are going to be doing these accounting changes—and I will not call them manoeuvres, because that sounds sinister—so that politically it will not look bad when the numbers come in next year. My question is this, and I think it is along the lines of Gerry's: Can we have some assurances that somewhere, even if you have to add two numbers together on piece of paper, that the total deficit, as reported this year, will somewhere be reported next year in the budget? Can we get that assurance from you?

Mr Christopherson: I can give you only as much as this bill deals with. The purpose of the provision in this bill for the capital accounting is to ensure that the part of Ontario's expenditures that is related to publicly owned infrastructure, that are capital in nature, will be separately shown. They will be separately shown as part of the total expenditures of the province, and they will be shown there in the public accounts so that everyone can understand what amount of the total annual expenditure is allocated to capital and what amount to operating. The provision of the bill goes no further.

Mr Carr: Is the definition of capital laid out very clearly in this bill, and if so, where? If not, how do we do that? Because, as you know, we get into definitions of capital and how it is going to be applied, and things that

historically, accounting-wise, may have been classified as capital are not. Again, it can be moved around in that matter. How are you going to define capital, and is it defined very clearly in here? What section?

Mr Stoodley: It is in section 7 of the bill, sir. There are two sections that are added to the act. There is a short one, 15.1, and then there is the next one, 15.2, the one that is headed "Capital Account". It is subsection 15.2 (4). There is the definition of "publicly owned infrastructure," which is our attempt to define the capital, the expenditure for which will be treated as part of the capital account.

Mr Carr: When you did that definition, that was done more from a legal standpoint or from an accounting standpoint, presumably both, in your best judgement. Who, for example, was consulted on that? I guess the legal term is "standard acceptable accounting principles." Would that fall in with that, those definitions you have there in 15.2(4)?

Mr Stoodley: I think Ms Tysall, who was primarily my adviser on the expert basis of what should be included in capital, is better able to answer that than I. I found the words, but the concepts are hers.

Ms Tysall: My bias here is that I am an accountant. We were talking about these things setting up an accounting framework. So I was very much part of this.

Just to go back a little bit before I answer the question, the intent certainly was to provide a very clear distinction between operating and capital expenditures. This is a practice that is followed in many jurisdictions in North America, so it is not unusual. It does help with the accounting and the disclosure to the public. They can see more readily what our capital and operating expenditures are.

In terms of the definition, we did try and define them as best we could. We looked to other jurisdictions that were doing similar things and consulted with them. We had a working group set up within the Ministry of Treasury and Economics, and we worked with other ministries as well as the provincial audit staff. Somebody was there on our working group and did work with us on this definition. We were very concerned, as you are saying, that we got that definition into the act and that we tried to be as complete as we possibly could.

Mr Carr: So how would it work—

The Vice-Chair: We have to move the rotation around, Mr Carr, I am sorry.

Mr Christopherson: I just want to reiterate one thing and commit to something else for this afternoon. First of all, I think we are trying to stay away from partisan stuff as much as possible, but I think some of the previous remarks crossed over and require at least something for the record.

The purpose, from a political point of view, of separating the two is very clear and we make no bones about it. We believe there is a difference in spending money on the capital side of the budget versus spending money on the operating side. We think there is a difference in terms of debt and in terms of expenditures of taxpayers' money when you are building a school versus when you are spending money, for instance, on a drug plan or on welfare costs on a yearly basis. We will articulate what we think

those differences are at the time it comes out in the budget. I think they have already been articulated to a large degree by the Treasurer.

But those differences we might have philosophically from a political point of view are very much different from the document that is here. The document provides the groundwork for that to be done, but it also ensures that everything is going to be accountable. I say again, as I said yesterday in the Legislature, this is not being done in an attempt to hide anything. It is being done to separate, as many other jurisdictions have done, many other governments, many of them Liberal or Conservative-type governments that recognize that there is a difference in the spending and the accountability of those two.

The other thing I would like to say, Mr Chair—

The Vice-Chair: I appreciate you wanting to get some stuff on the record. I would ask, though, if you could put forward a question as this is supposed to be question period. Hopefully later this afternoon we could have more of a debate after we have had this.

Mr Christopherson: Okay, although I am serving two purposes here, both as a member of the committee and also the parliamentary assistant to the Treasurer.

The Vice-Chair: Quite true.

Mr Phillips: We want answers from these people, not speeches.

1130

Mr Christopherson: I realize what you would like, Mr Phillips. I believe I have the floor.

Mr Phillips: You do, but we have a half-hour to get through this. We do not need a speech from you. We can hear speeches any time.

The Vice-Chair: Please, no more cross-debate, Mr Phillips. Please try and place your question.

Mr Christopherson: I was going to make a commitment, but obviously they do not want it, so I am done.

The Vice-Chair: Okay, then we will move over. Mr Phillips.

Mr Phillips: You are only allowed one on one side at a time?

The Vice-Chair: We move around, Mr Phillips. We will come back.

Mr Phillips: I am very anxious to know how we are going to report the numbers. If this had been in place this year, would the capital fund be shown as \$4.29 billion or does the paragraph "Allocation of expenditure over time" mean that the only expenses would be the amortization cost you apply? Which of the two would it be?

Ms Clitheroe: I am sorry, I am not sure I understood your question. Your question was, what portion would be in the capital fund and what portion would be in the operating fund?

Mr Phillips: If this bill had been passed last year and you were preparing the budget and you announced this budget, would the capital deficit you show in the budget be the \$4.29 billion or would it be your amortization cost of that \$4.29 billion?

Ms Clitheroe: I am not sure if I can get the years right on this, but I will certainly try. The idea is to show in the capital fund the total amount of the expenditures we are making on capital.

Mr Phillips: For that year.

Ms Clitheroe: For that particular year. What will be happening is that we will be amortizing those expenditures into the future, over the next, say, 20 years. So we will take a portion of those capital expenditures and they will show up in the operating fund.

Mr Phillips: The total actual expenditures, not what you are amortizing.

Ms Clitheroe: We will take an amortization of those capital expenditures and show that in the operating fund. The capital fund will continue to show the total amount purchased or acquired and the operating fund will show the amortization of that.

Mr Phillips: So basically we will have exactly the same reporting as we have in this year's budget.

Ms Clitheroe: The amortization was not included in last year's budget because it had not been enacted yet. We had not enacted the capital fund, so the amortization was not apparent in the operating fund for that year.

This is Tony Salerno here, by the way. He is with the office of the budget.

Mr Phillips: I am just saying that we will continue to see it reported in that format that is on pages 68 and 69.

Ms Clitheroe: With respect to the public accounts, the capital and operating fund will be as Wendy Tysall has described. When one is referring to the capital fund in a particular document, whether it is this document or a budget or another document, one would see the numbers consistent, references to the capital fund or to the operating fund. This act does not purport to prescribe the method in which that reporting would occur from document to document.

Mr Sterling: I guess I will ask this to Tony. If they come in and paint your office next year, does that show up as a capital expenditure?

Mr Salerno: I believe that would be an operating expenditure. That is regular maintenance. I do not know the technicality of exactly where the breakoff is—

Mr Sterling: Do you want your office painted?

Mr Salerno: —but I believe that would fall under a regular operating expenditure and consequently would be part of the operating fund report.

Mr Sterling: Okay. The other part is, if they renovate a school out in the community, is that a capital expenditure?

Mr Salerno: It would depend on the degree of renovation. If it extends the useful life of the building by a significant amount of time, then it would be a capital expenditure.

Mr Sterling: Who is going to make these decisions?

Mr Salerno: Essentially, what enters into the capital fund is the amount that is being deemed to be capital expenditure of the school board and the amount of the grant being provided by the province for that purpose.

Mr Sterling: But all renovations are capital, according to—

Mr Salerno: Significant renovations would be capital.

Mr Sterling: All renovations, as far as I know, is it not? I guess our concern here is that if we are going to present this as a real thing, first of all, the tendency is going to be for everybody to shove it in capital. That is the political advantage of this thing. That is the easier sell. If I were the Treasurer, I would want to put everything in capital I could get in capital. Whether it is an accurate reflection of what is happening or not is another thing.

In terms of the plant that is in place now in Ontario—the schools, the sewers, the highway system—we know they are deteriorating. Every day that goes by, the roads break down. Is it fair to say, “We’re spending this on capital,” without putting something in the budget saying there is going to be depreciation over the next year of the capital stock of the province?

Mr Salerno: Essentially, past capital expenditures have been expensed already, because that amount, past expenditure for capital purposes, was expensed in the year in which it was incurred. So for the purposes of reporting, that expenditure has happened. That is part of the problem with the current system of capital reporting, because there is not a good sense of what is being used in the current period and what is adding to the capital stock.

As you know, most other jurisdictions do report capital in a way that will expense it over some semblance of its useful life. All the US states have a separate capital fund. Many of the Canadian provinces have a capital fund to different degrees. In the case of Ontario, we have not done it in the past. In fact, that makes interprovincial comparison and interjurisdictional comparisons very difficult.

Mr Sterling: Listen, Tony, I do not think treasurers in any of the states or any of the provinces are any different than they are in this province. I do not know how much this is going to really improve the accounting to the public in terms of what is really being done, because notwithstanding what you say, that there is a capital stock there, the fact of the matter is that we have to face the fact that there is deterioration taking place over the next year as well and that to accurately reflect whether any government is putting back enough to overcome the deterioration that is taking place is really the question for the public to understand, in my view. I would like to know if \$1 billion a year or \$2 billion a year is enough to keep our highways up to what they were before in that whole scenario.

At any rate—

The Vice-Chair: Mr Sterling, I am going to have to move the rotation around.

Mr Klopp: Maybe it got partly answered. I guess I come from a small business point of view, a farm. We have capital expenses and we have day-to-day expenses. I do not see a big problem with that. In fact, maybe in my way I find it almost bizarre that the government of Ontario does not even follow a simple practice I was doing on my farm to make sure I am investing—what I understand of this kind of deal here, it is to maybe make us understand where we are investing on good things that are going to be around for a while or we are just spending on short-term

things. Is that why you want to get this more cleared up by this section?

Mr Salerno: That is part of the results that are hoped for in this new way of reporting capital, segregating capital from regular operating expenses.

Mr Klopp: So people like me who get elected who have to help make decisions for my riding and for the whole province can maybe then look at these books and understand where I am investing in good things that are going to be around for a while versus making sure that the welfare roll is getting paid up, and maybe making it clear for me to see, as an MPP?

Mr Salerno: I cannot make that judgement, whether operating is good or bad.

1140

Mr Klopp: No, but for me to help in the decision-making process.

Mr Salerno: It will help in making a distinction between the regular ongoing operating expenses and the things that are going to be around for a longer period of time. In fact, with this approach it will more clearly identify the capital that is being used up in the current period, which is part of the concern that Mr Sterling was identifying a minute ago.

Mr Klopp: I agree too. There is no point in trying to hide things or smooth it around. In a simple thing like my own operation, the bottom line is that the bills have to be paid. But it helps if I separate them: Did I spend money on a tractor or did I spend money on going to a party or on a short-term trip? Still the bills all have to be paid and that is still going to be showing up in the accounting system, right?

Mr Salerno: Right. In fact it makes the decision whether to spend the next dollar on capital or operating—it puts them more on an equal balance, because you know that in that year you will be reporting, as any good business person will, only that amount of capital that you are consuming in that year. Consequently it puts the decision between capital expenditures and operating expenditures on an even footing. In the past, there is evidence, looking at the capital expenditure over a number of years, that in tough times capital expenditures suffer, because they are easier to defer and you get a bigger impact on the bottom line by deferring capital in any one year when you need to report the total capital expenditure in the year in which the asset was acquired.

Mrs Sullivan: I too want to ask questions relating to the write-downs and how they will be determined. There are several questions I have relating to them. The bill indicates that each expenditure reported in the capital account shall be written off over a number of years yet to be determined. Does that mean, by example, that if the capital investment is in a hospital there might be a different period of years for the write-down of that particular expenditure than there would be for the write-down of another capital expenditure such as a school or something which is wholly owned by the province rather than something in which there is municipal or another level of government involvement? That is one question.

The second thing is whether there is consistency in the write-downs. How will the announcement of the determination of the Treasury Board be made? Why would a consistent write-down or depreciation level not be included in this act? It seems to me that has been the nature and approach in the private sector in terms of business write-downs and depreciation allowances and so on. Why would that not be the situation here?

I am interested in the remaining capital. If, by example, the write-down is 20% in one year, which means the purchase or the expenditure would be made over five years, where will the remaining four years show in subsequent years, in the capital account or in the operating account? We know where the amortization costs are going to go, but are you going to continue showing the capital in the capital account? I am interested that there is no reference to a capital reserve and I wonder why not.

Ms Tysall: The amount for the write-down has not been determined. As you had mentioned, it will be decided by Treasury Board, but I think the intention would be that we would look at different kinds of classes of capital and perhaps, as you say, with school buildings, write them down differently from hospitals if there were any significant differences in that area.

The other approach might be to sort of put them all together and come up with an average, which is certainly simpler from our perspective and something that is followed by some other jurisdictions as well.

I do not know whether Treasury Board has spent very much time on this as yet to determine what that write-down might be. Tony, have you any—

Mr Salerno: No, that has not been considered yet.

Mrs Sullivan: I think that is highly problematic in terms of access to information and the understanding of the information that is provided to the public. If there is a different write-down, a different approach in each sector or in each capital purchase or definition, how is anyone going to know—

The Vice-Chair: Mrs Sullivan, I think you had asked three questions. You had one answered, and now you are on to another one. Maybe we could get the first three answered first and then an answer to your last one.

Ms Clitheroe: I think the second question was, why would one not have a consistent write-down? Why would one be one percentage—

Mrs Sullivan: The statutory.

Ms Clitheroe: —and another be another percentage. Perhaps, Wendy, you might wish to comment, but with respect to business practices in this area, different types of assets have different useful lives, and the attempt is often made to try to match the write-down over some matched principle. So that would be one argument in favour of different classes. As Wendy mentioned, an argument in favour of some sort of average which would take all that into account but come up with an end result number which one could then say is the number would be simpler. On the other hand, it would not provide the advantage of being able to know, underneath that one number, what the formula was on each class of asset. Those would be the two alternatives.

With respect to recording how those numbers—when the Treasury Board makes that determination, Public Accounts would be reflecting what the amortization was over the year.

Your third question was with respect to how, once you have written off—you, I think, used an example of a useful life of about five years, so that in year one, you would be writing off 20% of that asset; in year two, you would be writing off 20% of that asset, and so on.

The capital stock reported in the public accounts would certainly reflect that the original asset had been purchased, but in the budget of course we are looking at current capital expenditures, and it would be those that you would then start to see reflected in amortization in the operating account.

Wendy, you can perhaps correct me.

Ms Tysall: I think that is fair.

The Vice-Chair: Okay. The question you just asked as a supplemental, has that been answered as well?

Mrs Sullivan: I was just expressing a reservation, but I did ask about a capital reserve.

Ms Clitheroe: Yes, the fourth question was with respect to a capital reserve. Could you assist me by identifying what exactly you mean by a capital reserve?

Mrs Sullivan: Expenditures that might be put away for future years' use for capital purposes.

Ms Clitheroe: Sort of like a little savings account for future purposes.

Mrs Sullivan: The municipalities have this as a requirement in their act. Why would not one have been considered for the province?

Ms Clitheroe: If I understand the question correctly, you are talking about something like a sinking fund, to accommodate those reserves in future years. Wendy, was a capital reserve considered during the deliberations?

Ms Tysall: I do not think we did, no. There is somebody here from the staff who might be in a better position to answer that question.

1150

Ms Clitheroe: Could we come back to you on that question?

Mrs Sullivan: Sure.

Mr Sterling: I have two quick questions. During the year, you issue quarterly financial reports. If we had had a capital account this year, would you have shown the sale of the Dome—I forget what the figure was, \$130 million—as a revenue in the capital account or the operating account?

Ms Clitheroe: This is with respect to the sale of the domed stadium?

Mr Sterling: Where you got \$112 million—I forget what the exact figure was.

Ms Clitheroe: That would be reflected as income in the consolidated revenue fund.

Mr Sterling: So, on the one hand, you are saying you were spending this amount on capital, but when you sell an asset you are not going to count it off against the capital fund. Is that right?

Mr Klopp: I would not call that an asset.

Mr Sterling: You may be right on that.

Mr Siddall: I will introduce myself. I am Robert Siddall, the acting assistant director in Treasury.

With respect to that, because the staff co-expenditures would have been made prior to the setting up of the capital fund and would already have been spent—

Mr Sterling: No, no. I am talking about if this happened next year.

Mr Siddall: Are you saying it is set up and included in the capital expenditures that we have put into the capital fund?

Mr Sterling: Either way. I mean, it is a sale of an asset.

Mr Siddall: It does make a difference. Let's say we make an expenditure within the capital fund this year to purchase a piece of land. If that land is resold in the future, then you are right, it will be taken out of the capital fund. But if the land was purchased prior to the adoption of a capital fund, it more appropriately belongs in the operating fund for where it originally was charged.

Mr Sterling: So you are saying if it was a blank piece of crown land, you have to sell it and buy it back before it gets in the capital fund?

Mr Siddall: It goes back to the fact that we have made expenditures for capital in the past that we are not putting into the capital fund at this point in time. The capital fund starts at a specific point in time.

Mr Sterling: But the philosophy behind this is to say to the people, "We spent this amount on capital." If you have an unusual revenue from the sale of an asset, be it a blank piece of land, be it a building or whatever, surely to God, you want to indicate to the public that you did not get this from taxation or from licensing revenue or whatever. If it is accurately reflecting what has happened in that year, it should be shown as capital revenue.

Ms Clitheroe: You are accurate, in terms of maintaining appropriate accounting standards, that the revenue originally was identified with respect to the capital fund as well. In the capital fund that is being established, there is not an attempt to go back 100 years, or whatever, and reclassify all of the assets that the government has owned until that point in time. The decision was taken to implement the capital fund as of a specific date, so with respect to expenditures that are being made on capital and are identified with the capital fund, you are correct in saying the appropriate accounting principle would be to match any revenues that came from that sale to the capital fund. But it would now be misleading to identify something that had not originally been part of the capital fund as part of the capital fund in subsequent years.

Mr Phillips: There must have been a lot of debate around Treasury about Mr Klopp's suggestion of treating this like a business and showing depreciation costs—which are, I do not know, \$4 billion or \$5 billion a year—as an expense, because that is, frankly, how I look at it. My concern, not unlike that of my colleague here, is that this will end up destroying all sorts of stuff. I mean, you would

be a fool to lease stuff now. You are going to put in capital because it keeps it off the operating deficit.

Why did you reject the concept of showing some form of depreciation costs on an annual basis to give us the feeling of what are the true expenditures? What this will do—do not make any mistake about it—is that for the next five years all you will show will be the interest payments on the capital fund. You will not be showing the real cost of the refurbishing of the infrastructure. Why did Treasury reject the concept of some form of depreciation?

Mr Siddall: The concept of depreciation has not been rejected. In fact, the capital that is being acquired this year will be depreciated, starting next year as the first year. So in the next year, if this concept continues, you would see the first depreciation on the capital that was undertaken this year.

Mr Phillips: I know that. I am saying, why did you not consider the \$5-billion-a-year infrastructure amortization as a cost? I know you are going to show \$200 million next year as amortization costs of the capital fund.

Mr Salerno: That is a process that is in place right now, or until this year, that in fact capital was expensed in the year in which it was acquired. And this process, the process that was in place, has a lot of drawbacks that I think were already identified. It is felt that the new approach will more accurately reflect the long-term nature of the capital expenditure and will tend to place the decision on capital expenditure or operating expenditure on a more equal basis, not to mention the fact that many other jurisdictions, including all businesses—

Mr Phillips: No, no. All businesses show a depreciation cost.

Mr Salerno: Depreciation—but they do not depreciate. When a business acquires a new office building, it does not expense that on its financial statements.

Mr Phillips: Of course not. It shows the depreciation cost.

Mr Salerno: Well, it capitalizes it and depreciates it over time, which is the process that is being adopted through the capital fund.

The Vice-Chair: We have run out of time.

We want to thank everyone from Treasury and the other ministries who have been in this morning to respond to questions. It is greatly appreciated.

Mr Christopherson: Will the Treasury staff be here this afternoon also?

Interjection: We can be.

Mr Phillips: If you would, please.

The Vice-Chair: So we will have some Treasury staff here this afternoon. Great. And we are having the auditor—I do not know if the actual auditor, but representatives of the auditor's office—in here this afternoon at 3:30. We are adjourned until 3:30.

The committee recessed at 1159.

AFTERNOON SITTING

The committee resumed at 1548.

OFFICE OF THE PROVINCIAL AUDITOR

The Vice-Chair: This is the standing committee on finance and economic affairs, dealing with Bill 156, An Act to amend the Financial Administration Act, continuing our hearings from this morning, when we heard from Treasury and Economics.

This afternoon we have representatives from the Office of the Provincial Auditor and the auditor himself. Welcome to the committee. We appreciate your being able to appear and respond to questions on such short notice. Just for the purposes of Hansard, would you introduce yourselves. Have you any opening general comments you would like to make? If not, if you are just here to answer questions, then we will begin that process.

Mr Archer: I am Doug Archer, the Provincial Auditor of Ontario. Ken Leishman is from our office and is in charge of the public accounts audit branch in our office.

As for opening comments, we do not have any, but we are certainly prepared to answer questions with regard to the act. The only section of the act we have really had an opportunity to review thus far is the one dealing with the capital account, so if any of you have any questions on that section, we would certainly be glad to give you our comments or views.

Mr Sterling: I would like to thank the Provincial Auditor, as well as the Treasury staff who are here, for responding to very short notice in coming before the committee. We should thank the Treasury staff for doing that this morning.

One of the interesting parts of all of this is that, having phoned you late last week, I was somewhat surprised that the Treasurer had not even consulted you with regard to how the capital account was going to be set up, in that you would be the person who would, I guess, make some comments on the outcome of it. Is it normal practice for an auditor to have some kind of response? Is that not really the role of the Provincial Auditor?

Mr Archer: With regard to amendments to the Financial Administration Act?

Mr Sterling: Especially when you set up a new style of books, so to speak.

Mr Archer: I think that in those situations it would be normal practice to consult with the Provincial Auditor. As for consultation in this case, we had many talks with the Treasury officials early in the game—probably last January or February would be about the timing—and we thought we had a pretty good feel for the type of change they were trying to make with regard to capital expenditures. We realized at the time there was a good possibility that the changes they had in mind would ultimately require some change in the Financial Administration Act. We were not sure of that, but there was a possibility that it would, so the fact that ultimately changes appeared in legislation was not a surprise.

What was a surprise was that the first I heard that it had actually reached the stage of being in legislation form

and had had first reading was when you called me, I guess it was last Monday, to get my comments.

Mr Sterling: I do not know the reasons for that, but the Treasurer seems to have less ability—it is not just this Treasury. They just seem to be less prone to following the process through in its normal way.

At any rate, I am disturbed at that. The bottom line of any change in the budget format or the accounting should ultimately make the financial matters of the province appear to the public in an easier and more understandable form. That has always been my goal.

Just before we get to the capital account part of it, I know you indicated in your opening remarks you have not had the opportunity to look at the other part of it. I think it would be fair to sum up the other part of the act as giving the Treasurer more flexibility in dealing with investment and borrowing powers. He is given the right to invest in trust companies and credit unions and those kinds of things.

One of the concerns of the committee this morning was that if the Treasurer is given these powers, given what appears to be the desire of the government to implement social policy through other instruments—ie, Ontario Hydro buying uranium at four times the price from Elliot Lake, thereby helping Elliot Lake, without debating the issue of whether Elliot Lake should have gotten help or not—I guess it is the position of our party that it should have been done via a grant or something like that so that it is clear on the books what is happening and that certain taxpayers, via Ontario Hydro, should not benefit.

What we are a little concerned about is, if the Treasurer walked down the hall and said to the people who are investing this money, “We need \$500 million in trust company X,” how would we be alarmed to the fact that this was happening? The answer was that there was no alarm and that if the alarm bell did ring, it might ring a year later when somebody was reviewing those matters.

If the policies of investment are changed dramatically, I would like there to be some mechanism for this to come to light. At the present time, when the province invests money in Treasury bills, does it report to you on a regular basis as to where it is putting the money?

Mr Archer: They certainly do not consult with us beforehand or report specifically to us, but to the extent that orders in council, for example, are required, we would become aware that way, because we get copies of all such documents. I think we would be aware of the type of situation you are describing, but it would just be from an information standpoint, not from a standpoint of giving our blessing or otherwise condoning the action.

Mr Sterling: I do not think your function is to bless, and I think it is the right of government to make those decisions, but what I am obviously concerned about is that people have knowledge of that. That is the only question I have on the investment end of it.

Mr Archer: Certainly the investment function, along with any function of Treasury or any ministry for that

matter, is subject to audit from a value-for-money standpoint. We may periodically go in and review the investment activities of Treasury to see if, from our view, they are conducted in the best interests of the taxpayer.

Mr Sterling: It is just that this act gives them a lot of other options in terms of what I think they described as covering themselves. I think it is probably good as long as it is done in a small-c conservative manner in terms of the risks taken. That is all I had for you.

Mr Phillips: Along the same line, before we get on the capital side, I realize you have not had a chance to review the bill. We play a similar role to you but in a different way. You are probably always looking for things that could better be disclosed for the public and made more informative. I would appreciate, if your staff does have a chance to look at it, any comments you do have for us. It really cannot be done today, and I think there is a commitment that the bill go back to the House next week, but if you have any suggestions for the Legislature in terms of prudent disclosure that should be there but is not there, I would find that useful.

Mr Archer: We would be pleased to do that.

Mr Christopherson: I would just like to reaffirm, so I am very clear on the issue, that you said you receive a copy of the order in council. Correct? Do you normally review it to the extent that it comes in and somebody actually looks at it and acknowledges it is in and there is some kind of tracking of it, or is it just something that comes in and it is in a file should you then decide to do an in-depth review in that area?

Mr Archer: Basically it is the latter, although we do analyse every order in council—there are quite a number, as you know—just from the standpoint of keeping abreast of what is going on and being alert for special happenings, if you like, that maybe we should turn our attention to earlier than we would in our normal audit cyclical approach.

Mr Christopherson: I have one last question on that. I thank you for the answer. The “special happening,” to use your phrase, which I think is a nice way to put it—are you comfortable that in your office—and with your successor, who will accept most of the methods that are built in now—most special happenings would come to someone’s attention were there irregularities or something that unusual, that there is enough check and balance at your end of it that it would probably come to the attention of yourself or your staff?

Mr Archer: I am not sure what you mean by an irregularity. If you use the example that Mr Sterling offered of the Treasurer walking down the hall and saying, “I think we should put \$500 million in trust company X,” if we saw that in an order in council, I do not think we would see that as a special happening. We would be aware of it and would take it into account in our audit of the public accounts of that year, but I do not think it would be likely to trigger any suspicion on our part.

Mr Christopherson: I am just going to pursue that a little more, because I think it really is important. Under the existing rules, aside from Bill 156, if a Treasurer, any

Treasurer, were investing funds in an institution that he really should not—using the example of Mr Sterling, in a small-c conservative approach to husbanding the finances of the province—would that twig in some way? In other words, is there some way that someone would look and say, “Why is \$500 million in there? That doesn’t seem kosher,” and that it might be looked at a little more under the current setup?

Mr Archer: Ken, could you comment on that?

Mr Leishman: Yes. Under the current setup, an investment in an instrument that was not authorized under the current Financial Administration Act would be picked up as part of our annual test audit. It might not be picked up at the time it was made, but it would be picked up at the time we did the test audit and it would be reported on.

Mr Christopherson: I do not want to take up all the time, but I will cast this even further, through to our Treasury staff, if need be. There will obviously be certain criteria. Is it fair to say that there would be stringent criteria as to what would be an authorized institution, so that if there were any extension of where it could properly go, there should be a fairly high comfort level on the part of the opposition and the taxpayers if it meets those criteria?

Mr Archer: A lot depends on how specific the legislation is as to the discretion the Treasurer has in investing. In addition to that, Treasury itself as an internal operating guideline, would probably come up with specifics on what institutions investments should be placed in and so on. So we can audit to both of those, to the act itself and to the Treasury’s internal mechanisms, but if both of those are so broad that they would allow investment in almost anything, there is not much we can say as an audit group.

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Mr Christopherson: Eleanor, do you have anything to add to that?

The Vice-Chair: Could you come forward, please? I know you were here this morning. Reintroduce yourself.

Ms Clitheroe: My name is Eleanor Clitheroe, assistant deputy minister, office of the Treasury. With respect to the internal controls Mr Christopherson and Mr Archer are referring to, those controls are indeed very specific and are, in regard to itemized lists, as Mr Archer would be aware, with respect to our current investment policies. We would be continuing that practice under the amendments to the new legislation.

Mr Christopherson: Thank you.

Mr Sterling: Perhaps you could stay for a moment. I would like to interchange between you, if Mr Archer does not mind. This legislation goes to the extent of allowing the Treasurer to invest in debt instruments of corporations doing business in Canada. Would it be possible to set up some kind of reporting mechanism which would have to be produced by the Treasurer on a timely basis, I do not know whether that is quarterly or monthly or whatever, for the public to see where you have been putting this money? Is there a problem with that in terms either of commercial confidentiality or of the practical job of doing it? Would that be possible on the investment side?

Ms Clitheroe: Certainly there are situations where for cost purposes we do not wish to disclose to competitive forces in the marketplace what our activities are going to be or are so that we can participate in the marketplace in the same competitive fashion all the other market participants do. So your caveat with respect to operating in a normal business practice—the case is now that, as Mr Archer mentioned, the books are always open and the information is always available to anyone who would wish to know at any given point in time what the investments of the government are.

Mr Sterling: Sorry, but the two statements seem to be contradictory. On the one hand, you say there is some need for confidentiality, and then you are telling me the books are open.

Ms Clitheroe: We would not necessarily, if we were going to carry out a transaction of some nature, announce it to the marketplace at large until we had completed the transaction, for confidentiality purposes. If the market were aware that we wished to transact a certain transaction, it would then raise the rates against us or something in that nature. However, after the fact when our transactions are completed, we are always able to disclose them to Mr Archer or to whoever needs to have access to that information.

Certainly we are always subject to audit. We have both the controls of Mr Archer and the internal audit controls of the finance and administration branch as well as our own internal divisional controllership function. So they are always being scrutinized, always available and prepared and ready.

Mr Sterling: I was not suggesting that you reveal what your negotiations are. I was talking post facto the investment being made. Mr Archer, I am always concerned, having been very much involved with the Freedom of Information and Protection of Privacy Act and finding out how useless it really has become. With so much information the public is facing, the form of the information in my view is as important as the information itself, perhaps more important. Is there some form of information we could ask the government to produce on a timely basis which would readily reflect what the investment policies of the government are at that point in time?

Mr Archer: I would think so. You could even include it in the Financial Administration Act I would imagine. But certainly the public accounts themselves would be one vehicle. They tell you now where the money is at the end of the year. I think what you are suggesting is you would like, in addition to knowing that, to know where it has been during the year. The quarterly financial report that the Treasury now produces would be a vehicle that could provide the type of information you are seeking and could tell you where the money has been in the last quarter, for example, as opposed to waiting a whole year to find out.

Ms Clitheroe: Certainly the investment policies of the Treasury are always available at any time.

Mr Sterling: What concerns me a little bit here is that our auditor is getting his information piecemeal from the Ontario Gazette. Is that correct?

Mr Archer: We are getting it automatically, on a piecemeal basis, but there is nothing to prevent our office from going over to the Treasury at any time and getting it.

Mr Sterling: I understand that, but what I am concerned about is that while that information may mean nothing to you, the \$500 million going to trust company acts, it may mean very much to a member of the public or a member of the Legislature in putting two and two together as to where that money has eventually been invested.

I ask the Treasury staff to consider an amendment to the act that we might consider—in terms of being reasonable, I do not know how large your investments are—requiring the Treasury to produce that on a quarterly basis. I can draw the amendment, but I would prefer you to draw the amendment so that we can debate it and it would be done in a normal manner. We could do that in committee of the whole House. We do not have to consider that this afternoon, but I would like to put forward that kind of an amendment when we get back to the House.

The Vice-Chair: Any further comments on this specific issue regarding the investments? Seeing none, the other issue we wanted to deal with was section 7 regarding the establishment of the capital account, that is, section 7 of the bill regarding subsections 15(1) and 15(2) of the actual act. We will start with Mr Phillips this time.

Mr Phillips: You have had a chance to look at it. I do not know whether it is best just to let you comment on it and then ask questions after that or whether you find it easier for us to ask questions and comment on the questions.

1610

Mr Archer: I could give a preliminary comment. We are not quite sure how to interpret the content of that section ourselves, but we were certainly given to understand right from the beginning that there was no intention of trying to capitalize physical assets. There was no intention of trying, through that mechanism, to hide—I think “hide” is the expression used—part of the deficit of the province. It was just a matter of trying to break expenditure into two components, one being the amount spent on capital items as defined here and one spent on other operating items. So you have two expenditure figures which would be added together, then subtract the revenue and you come up with an overall deficit for the province.

We were certainly given to understand that in our discussion with Treasury officials, and when the budget came down I thought it was very specific on that point with regard to the 1991-92 year, that in fact that would be the case. As long as that was the case, we as an audit office could see no problem.

When I read this I wonder if they are not intending to go further. When you set up a separate account and you start taking action that looks as though it might be writing off on a depreciation or an amortization basis, I get a little suspicious that maybe in the long run they are thinking of capitalizing fixed assets and thereby reducing the annual deficit of the province that way. As I say, we have not had a chance to sit down and talk with the Treasury people specifically on each of these clauses so that we have a better understanding of why they were written that way and what

the intent of the particular clause is particularly in the long run. In the short run, I do not think there is any problem, because the budget tells you what is going to happen for 1991-92, but for 1992-93 and thereafter we are not sure, based on our reading of those clauses.

Mr Phillips: I guess it is just being in opposition, I get more suspicious. I listen carefully to the Premier all the time and he uses the line, even in the budget, "determined to eliminate the operating deficit by 1997-98." Whenever he is out talking to the business group, "We are going to balance the operating budget," I am suspicious that this is being set up to, in my opinion, not state the financial picture as clearly as it should be. That is why I need people like you who know this stuff.

I can understand the merit of a capital account. I can understand the merit of wanting to show there actually is a need for a more straight-line capital expenditure that is not subject to the vagaries of economic ups and downs. In fact, I think the capital account report says we need to spend about \$5 billion a year to refurbish the infrastructure of the province. I would have thought a better way of illustrating to the people of Ontario the costs of their government would have been to show, on an annualized basis, the cost to refurbish the infrastructure as accurately as they could, much as a company would show an annual depreciation cost and say that is about what they need to write off each year as our cost of keeping our operation refurbished.

This, I believe, starting April 1, 1992, is a very different way of accounting for the provincial books. It will show that there is a capital account and the only operating expense will be a little bit of amortization on that capital and the interest payments on it. For about the first four or five years, the province will show quite a low deficit and then it will climb as the capital account builds. To me at least, there is another way of looking at it, and I would not mind your comment on what is the best way to illustrate capital expenditures for the people of the province.

The other point I would make is, and I see this all the time, the debate between for example leasing something and building something. I know for a while there, because it was so tough to get capital money, it was easier to put it on leasing, so in my opinion that may have driven governments to lease more than they should have perhaps. I do not know. You may see it around here in government accommodations.

This may have the opposite effect, where it is far less painful to get it over into capital because all you really have to show is a little bit of interest charges on it and some amortization. As you get into a year when you may want to spend a lot on capital, you have the flexibility to do that because you will be showing a relatively small amount.

Those are just questions I would appreciate your comments on in terms of what is the best disclosure for the public. By the way, the Treasury people I know give us all the right information. I am looking for the most helpful formatting for the public.

Mr Archer: I think the accounting system of the province right now is the best way of disclosure. What that

entails is that all the money spent on capital items in any given year shows up in expenditure for that year. The problem with that is the one you cite, that some years you may have to spend, let's say, \$5 billion on physical assets and the next year only \$1 billion. You have the ups and downs or blips and it is going to affect the net expenditure or the net deficit of the province.

If that in fact happens, it does not bother me I guess maybe to the extent it bothers you, because I look upon expenditure on capital items no differently than expenditure on social benefits, health care, education, or whatever. It is just another expenditure for a service provided to the people of Ontario, and in a given year you might, because you have created some new social benefit like child care for example, spend an extra \$1 billion that you did not spend last year and will not spend next year. I do not think there is any suggestion we should try to even that out, so I wonder why we should be worried about evening out expenditure on physical assets.

Mr Sterling: The part I have difficulty with is one of the arguments the Treasury officials used this morning, which was that a lot of other jurisdictions have done this. Quite frankly I do not find it surprising, because I would be very tempted as a Treasurer to do it myself if I can disburse. I have heard Brian Mulroney, for instance, talk often about the fact that he is more than paying for his operating expenditures. What he is not paying for is the debt-carrying charges that were incurred, most of them before he got there, or at least half before he got there.

Mr Phillips: You are doing fine with those answers.

Mr Sterling: I have heard that argument. Basically what I am concerned about here is confusion of the issue for the public. I think we have a difficult time understanding a budget document to begin with.

Having said that, there is the advantage that Gerry identifies, and I guess the advantage too of what I would call the wealth-creating ministries, if there are such things, for instance, the Ministry of Transportation. If they build a road, then there probably is some wealth created as a result of that, if you have better transportation. There may be more benefit to ministries like that to be able to come in and get a fair share of the pie. They have been continually cut down over the last 20 to 25 years.

But in terms of keeping the accounts, what I see as patently unfair in setting this up is that we are freezing the situation as of April 1, 1992. You are not taking into account, or there is no liability shown, for the deterioration that is going on over the year. I think last year's budget was \$900 million for the Ministry of Transportation, and there may be some more in terms of that \$700-million fund, but a lot of that \$900 million is used to replace roads that are already there. Is that a capital expenditure or is that a maintenance expenditure? To me, it is a maintenance expenditure. If you are only replacing something that is there and you are starting from April 1, if you spend any money on an existing structure or an existing services, then you cannot say that is new capital. That is not a new structure or whatever.

I asked Treasury if they would subtract the sale of an asset, and they said no, not unless it was created after

April 1, 1992. I think the account will look good for the four, five or six years and then the poor Treasurer who has to deal with it, 10 and 15 years down the road, is going to want to do away with this capital account.

1620

Mr Wiseman: It will still be Floyd.

Mr Sterling: I hope things turn around enough so that it would be Floyd, but I do not think that is going to happen. I think it is a shell game at least for the first three or four years.

Mr Archer: I read into your comments the belief that commencing with the 1992-93 year they will in fact be capitalizing physical assets and thereby reducing the deficit of the province accordingly. Our discussions with Treasury to date would indicate that there is no intention of doing that. I admitted earlier that after reading the content of this act, I am not quite as sure of that as I was seven or eight months ago. We would like to sit down and talk to Treasury people and get a better understanding of why they have written the legislation this way. But we are still operating under the assumption that they will not be capitalizing physical assets even in 1992-93.

Mr Phillips: Can Treasury give us an answer to that?

The Vice-Chair: Please identify yourself for the purposes of Hansard.

Mr Stoodley: I am Graham Stoodley, the director of the legal branch for the Ministry of Treasury and Economics.

I think I can respond in part to Mr Archer's comment. I recognise I do not have an accounting degree so I will try not to play accountant. But playing lawyer, the provisions of the section we have written simply provide that the public accounts are to indicate year by year what expenditures have been approved by the Legislature that are capital expenditures. The section tries to point out or give some definition, some guidance as to what will be considered capital expenditures.

I do not fully understand the meaning of "capitalize the physical assets." As I believe this legislation reads, it means that if the Legislature has appropriated, say, \$4 billion of the \$8 billion—you recognize I am not using real figures—voted in the estimates and that \$4 billion relates to the creation or acquisition of capital assets, then that \$4 billion will be in the capital account to be maintained in the public accounts.

In subsequent years, an amount will also be shown that will recognize treasury board's assessment of the—"amortization" has been the word that has been used earlier this morning, although my accounting colleagues tell me that is not the accounting term that should be used but neither is it "depreciation"—it is an attempt to indicate over a period of years the writing off of that initial capital expenditure. Each year there will be new capital expenditures and the account will record those.

I cannot keep in my head the sort of where you are in five years, but where you should be, I think, is that the public accounts will show the total amount of the province's money that has been spent to create capital assets and it will show an estimate of the writing off over the useful life, or whatever other test is adopted for those assets.

I do not understand this section in the least to only show a portion of the actual capital expenditure in a fiscal year.

Mr Sterling: Will there be an equal amount of debt appropriated to the capital account which will equal the capital account?

Mr Stoodley: I do not think this section deals with the appropriation of debt to the capital account. It is simply an attempt, as I believe was indicated in the budget, to show what portion of the total expenditures each year by Ontario brings into life the enduring capital assets.

As Mr Salerno pointed out this morning in speaking to the committee, the current method, as I understand it—and Mr Archer can certainly speak far better than I about this procedure—is that there are estimates. They are voted. There is no clear delineation in those expenditures of whether the expenditure is going to create a capital asset or be used for operating purposes, to use those terms. All of those expenditures, or a portion of those expenditures, may have to be provided by borrowed funds.

This section does not address that. It simply addresses the issue of providing what we hope to be an accurate accounting of the expenditures made annually for capital assets acquired by the province or brought into existence as a result of those expenditures. So I do not understand that there will be an allocation of debt to the account.

Mr Sterling: Under budget paper D on page 82 it says: "The capital fund will invest in Ontario's infrastructure through payments for capital projects approved during the estimates process. Money will flow into the capital fund from the operating fund through loans from the operating fund required to finance capital projects." The example given on page 83 for the 1991-92 year shows all of the capital fund being financed by a loan.

Maybe Mr Archer can correct me if I am wrong, but is the concern not that the Treasurer in the future will say, "We only have a deficit of \$50 million and our cumulative deficit has been falling, but we have a capital deficit of \$40 billion," and therefore give the impression to the public out there that our deficit is falling when it is not? Is that not what is going to happen?

Mr Archer: These are the areas that we would like to discuss with Treasury a little bit more. You, Mr Sterling, and some of the other members might remember the days when we used to have capital aid corporations in Ontario.

Mr Phillips: Before my time.

Mr Archer: They were really just a mechanism, in my view at any rate, for spreading capital costs of universities and so on over a long period, as opposed to hitting the deficit in the one year, the year that the expenditure was made. When I see terms like "loans from the operating account to the capital account," it brings back the visions of the capital aid corporation that maybe the same type of thing is in mind.

As I said, we would like to discuss that with Treasury. But just to get back for a moment to Mr Stoodley's example, I think he said if we had a budget of \$8 billion and \$4 billion was going to be spent on physical assets, I guess the point I am trying to make is that \$4 billion is the—let's say there was no revenue, to keep the example simple. Is

the deficit for that year going to be \$8 billion or \$4 billion? That is what I mean by capitalizing the physical assets. If you capitalize the physical assets, the deficit will be \$4 billion; if you do not, it will be \$8 billion. This is what we are not sure of at this point.

1630

Mr Sterling: Maybe the Treasury official can—

Mr Siddall: Yes. It is Robert Siddall for purposes of this afternoon.

In looking at the accumulated deficit, that number is shown in the Public Accounts of Ontario and, as the capital fund paper says, the financial statements of the province or the consolidated revenue fund will be the same as they have been in the past, so that the accumulated deficit will show as a combination of the operating deficit and the capital fund deficit. If one is going down and the other is going up, the net effect will show up in the accumulated deficit and you will be able to clearly see if the accumulated deficit is going up or down.

Mr Sterling: There is no choice. As soon as the deficit drops below \$5 billion in this province, the operating deficit, the government is going to claim all kinds of wonderful things. That is the debate we are in here. That is a political problem. I find it unreal.

Mr Siddall: I am not sure if I understand where you are coming from, because I am saying the total combined deficit will be what will be charged to the accumulated deficit in the public accounts. What happens between the capital and the operating account, the actual impact of what is in the public accounts, will be the combined deficit of both the operating and capital fund.

Mr Phillips: I do not think there is any doubt about how the books would like to be illustrated. If I were the Treasurer I would love to do it too. I think Mr Archer has his finger on it, that the focus by the government will be on the operating deficit because that is a neat thing and the Treasurer said they are going to have an operating surplus by 1997-98. There is no doubt the capital program will be put into debt, but I do not think the public has near as an emotional attachment to debt as they do to deficits. Deficits they understand because they know if you spend more money than you raise over a long period of time, you eventually go bankrupt. I think all of us understand that. I think the government, if it is politically smart, will say, "Our operating deficit now is only \$4 billion." The public will think, "It was \$9.7 billion last year; it's down to \$4 billion," and it is spelled out on page 55 of the budget.

Our question to the auditor, and I think he has given us the answer, is that from your view, in terms of the public array of the finances, would you prefer a continuation of capital being shown in the year it has occurred, as opposed to capital being shown on an amortization basis? By the way, Mr Archer, it may give you a hint about how they are planning to do it on page 55. There are words—"gross of amortization"—in here you may want to look at. Have I interpreted you properly in terms of what your wish would be, which is to show capital for the year it has occurred?

Mr Archer: Yes, certainly. If the decision were up to me, that would be the way I would go. However, just to

clarify the reference to amortization, as an audit office we would have no objection to the Treasury department internally maintaining a subledger or subaccount or whatever, which gives in historical-cost dollars the useful life left in physical assets. To do that you would need some kind of a write-off period of 20 years or whatever. If they want to do that for their own purposes or even put a page in the Public Accounts or in their budget giving this information, that is all in the interests of further disclosure.

However, our point is that any of this type of thing should not affect the net deficit of the province for the year. It should be total and cover both the operating deficit and the capital deficit.

Mr Siddall: I know we are having a lot of discussion about this but page 82 of the budget does say, "The public accounts for the 1991-92 fiscal year will show the consolidated financial position" With respect to what Mr Archer said about showing expenditures in the year in which they were spent, the current plan in the capital fund in coming up to the combined deficit of \$9.7 billion still does that. It is not changing that strategy which has been used in past Public Accounts to show capital expenditures in the year in which they were expended. What is happening is just what Mr Archer is requesting. We are showing, for purposes of trying to stress the importance of capital, a breakout of capital expenditures within a subsection of the Public Accounts of Ontario.

Mr Sterling: I guess that goes back to my original concern about what the capital accounts says.

The Vice-Chair: Sorry, you were next, Mr Wiseman.

Mr Sterling: I am sorry.

Mr Wiseman: I have been listening all afternoon and the bottom line here is that I think they are trying to get at whether any government, now or in the future, is going to be able to hide what is going on in terms of revenue in and revenue out. The bottom line for me is that when the budget comes out, it is going to say: "This is the amount of money that's going to be spent. This is the amount of revenue that's going to come in." As far as I can see, I do not think you can hide the difference between the two. Is that correct?

Mr Archer: That is a straight cash approach. You are going to get so much money and so much money going out. Sure.

Mr Wiseman: Is there no way to hide that?

Mr Archer: No.

Mr Wiseman: Okay. So whatever the difference is, that is the deficit and it does not matter. If I read you correctly on this section—and you can correct me if I am wrong—you are trying to say, at least through this, that there are assets the province has accumulated and they have some kind of value whether it is absolute or diminishing depending on depreciation. Is that also correct?

Mr Archer: I am not trying to say that. I think the reference was made, perhaps by Mr Sterling with reference to the accumulated deficit, that what has happened in the past is that we have a lot of physical assets out there that, if the Treasury could get a handle on them and

wanted to capitalize physical assets, will take an awful lot of work.

Mr Wiseman: You would have to sell them all off.

Mr Archer: No. I think, first of all, you have to identify what you have, try to determine what you paid for it, what the expected life was and what the value is today. It would be a tremendous job to try to isolate the portion of the accumulated deficit, that is, the deficit to date represented by physical assets. There would be an awful lot of work. It would be nice to be able to do it because then you have got a starting point. As Mr Sterling said, the way we are doing it here, we are forgetting about the past 100-odd years the province has been in business and we are just to worry about the future. I think that is the only practical thing you can do, frankly.

Mr Wiseman: I think I understand what you are saying there, that whatever assets we buy in the future will have value but they will also have cost in terms of buying them—

Mr Archer: The purchase cost, yes.

Mr Wiseman: —and that is going to show up in whatever difference there is between the revenues and the expenditures.

1640

Mr Archer: That is true, yes. The budget will always have to show total revenue, total expenditure and whatever the difference is, and assuming it is always in a negative position, you are going to have to borrow money to cover it.

Mr Wiseman: Or it will be in surplus and you can be paying down the accumulated deficit. I have been listening all afternoon and they are trying to say there is going to be some shenanigans or something, that some magical accounting trick is going to turn out at the end of the year and they will say, "Oh, look, because we have amortized this, depreciated that, capitalized that and done this, we don't have any deficit at all." Anybody who is blind can tell that if there is a difference between your revenues in and your expenditures, you have a problem.

Mr Archer: That is right. The term "deficit"—

Mr Wiseman: I apologize. I did not mean that, I am sorry.

Mr Stoodley: I can tell the difference too, yes.

Mr Wiseman: I am sure you can. I find your information extremely useful. I apologize for that comment.

Mr Archer: I guess we have been using the term "deficit" primarily from the standpoint of an accountant's definition of the term. I think the term you are using is really a "cash shortfall" and is probably a better term to put on the difference between revenue and expenditure. There is no way you can hide a cash shortfall or a cash overage. However, how that translates into financial statement presentations is something else again.

I think this is what we are talking about here, how that cash shortfall—assuming it continues that way—gets reflected. Is a cash shortfall in total going to show on financial statements as the deficit or is it going to be broken down and so much will be a deficit and so much will be expenditure on physical asset?

Mr Sterling: I guess my concern on this whole thing is the different interpretation of an asset—a capital asset owned by the government and by the private world out there. The private world out there, when they own a capital asset, can sell it or produce real value with it.

Under this fund, as I understand it, if we spend \$1 billion on roads next year it is going to show as a capital asset. It is not saleable. It is more of a negative than a positive. For a government, when it is owning property, it is usually more of a negative than a positive. This building we are seated in today might be worth \$500 million—let's say it is worth that—but the government has no option in selling it.

Mr Wiseman: Except we do not own it.

Mr Sterling: We own a long enough lease to sell it for \$500 million. But I guess I am concerned that as we progress over the years, according to the way this will happen, either with this Treasurer, or if Gerry Phillips or I am the next Treasurer, we will put all our deficit against the capital, all we can. If we spend \$5 billion and our deficit is \$3 billion, we will put \$3 billion against that particular part.

What will happen over the years is that we will say: "Okay, we have a capital accumulated account of \$120 billion and there is owing against that \$85 billion of debt against the operating side. We have been lowering our debt and we got in when it was \$80 billion and now it is \$23 billion. We went down by \$5 billion." All the people out there interpret that in relation to their personal, private home. They say: "Oh, Jeez, they've got a \$120 billion worth of asset and they only owe \$83 billion against it. They are lowering the operating. I feel comfortable," and we march on. That is what this game is all about.

People, in my view, will relate government property, capitalized property, with what is property in the private world. In the public sector, property is a pain in the you-know-what, because it attracts all kinds of costs to keep it up and maintain it. If government could, for instance, close an institution, it would save money. So it is very different. That is what I see in this. Is that not what is going to happen?

Mr Siddall: I think that brings out what we were trying to do with the capital fund and the importance of trying to separate capital expenditures, because if people cannot see what has been spent on capital expenditures, then they cannot do the next step which you are requesting, which is to try to determine how much is required to maintain that capital expenditure or how many operating costs are associated with that capital expenditure.

On page 83 of the budget this year we tried to point out the point you are making so clearly, that there is an operating cost associated with capital expenditures and that the decision process on a capital expenditure has to include not just the capital expenditure itself but the impact on future operating costs. That is the reason why I think the government felt it very important to try to isolate capital expenditures, so that better decisions can be made on capital expenditures.

Mr Sterling: I am really worried about this now in terms of seeing how it spins out.

The Vice-Chair: Mr Sterling, I want to move on and then we will keep the rotation going. You will be next. Ms Ward.

Ms M. Ward: I think I have clarified what I was wanting to ask, because the witnesses were saying one thing and I think Mr Sterling's questions were suggesting to me that they were saying something entirely different.

Basically it was what Mr Wiseman addressed. If there is a shortfall, it is going to be reported if there is a difference. So I would like to pass.

The Vice-Chair: I am going to go to Mr Phillips and then come back to Mr Jamison.

Mr Phillips: That is all right. She did not ask a question.

Mr Jamison: There seems to be some concern here today about the methodology of separating capital from operating. That seems to be the whole evolution of the discussion here, and some people would almost think there was something sinister trying to be done here.

Mr Archer, are you aware of other jurisdictions that surround this province that operate in that fashion as far as their accounting practices are concerned? For my understanding, why would the majority of those jurisdictions be separating those costs?

We have heard earlier today that you can really see the operating costs and capital costs of a jurisdiction very clearly when this method is put in place. We have also heard that the cumulative costs, both capital and other, are going to be shown clearly. To me, it would indicate that it would show clearly the expenditures that are being made in two very separate areas: the ongoing business of government and the capital cost or the investment that is being made in the infrastructure of the province.

I think it is important that it be separated. As I said earlier in my preamble to this, other jurisdictions do it, and it would also put us on a level system with other jurisdictions as far as comparisons are made, because there is quite a misunderstanding out there at this point that other jurisdictions account differently. Certainly there is some misunderstanding on the actual per capita debt in those cases. So I would say it would bring it in line. What would you say to that?

1650

Mr Archer: If I can attempt to respond, the Office of the Provincial Auditor certainly has no disagreement whatsoever, and in fact would support the splitting of expenditure between operating and capital from the standpoint of giving more information to the people as to where their money is going. So there is no dispute there.

As the discussion has evolved, I may have misinterpreted at the outset what Mr Sterling's point was. I thought he was concerned that through the possibility of capitalizing physical asset purchases, we may reduce the overall deficit of the province for publication purposes—not the cash shortfall; the accounting deficit of the province.

As I listen further to him I think his concern is not so much that. He seems to accept that there will be no change, that all expenditures will be reflected in the deficit. What he is concerned about is the split of the deficit between operating and capital and a belief on his part that

there will be a tendency to push as much as you can, using the broad definitions of what is capital, into the capital deficit, so that the government could come along and say: "Well, from an operating standpoint we're really doing great. If it weren't for all these capital assets we're giving you as people of the province, we'd be in great fiscal shape."

As for other provinces, I can get other people here to comment on that who are more familiar with what is happening, but from my own general knowledge I think some provinces have gone so far as to capitalize physical assets in effect by setting up crown corporations that handle the fixed or physical assets of the province and get the accounting completely off the books of the province. So in that sense I do not think they are giving a fair picture. If you consolidate the financial statements of all these entities, you might get the right picture, but I think either Rob or Ken can talk more specifically about what is going on in this area in other provinces.

The Vice-Chair: Would either of you like to comment?

Mr Leishman: I could comment and Rob could certainly comment further. One concern, and I hope it does not happen, is that after the 1991-92 fiscal year they will do something similar to what I believe was done in British Columbia: They will offload debt and reduce the deficit by creating a new real estate corporation or physical asset corporation or whatever you want to call it, through which all fixed assets will be purchased and through which all grants to school boards that relate to capital and grants to municipalities will flow. They will have a huge accounts payable or loan payable to the consolidated revenue fund. It will look as if the province in essence might have really a \$10-billion deficit, but by offloading that debt into a separate crown corporation it would look as if the province's deficit were only \$3 million or \$4 million.

I believe a variation of that has been done in Saskatchewan, although Rob Siddall would know more than I would on that. That is a concern. I hope it does not happen, and under what I presently see, I do not think it will happen.

Mr Siddall: As Ken and Doug mentioned, some of the other provinces have created various crown corporations to deal with such things as realty corporations. I believe British Columbia and Saskatchewan have done that. Alberta has set up a capital fund for which it includes items of a similar nature to what Ontario is considering in the capital fund.

As Doug mentioned, their accounting policy in terms of the financial statements is to consolidate those back into the financial statements of the province, which is what the capital fund in terms of what is proposed here in the budget paper is trying to do as well in Ontario: to ensure that Ontario is presented on a consolidated basis so that it is comparable with other provinces, but still allow for some sort of segregation of capital and operating expenditures.

Mr Jamison: If you will clarify for me, it is your understanding that in a number of provinces greater debt is being carried than is being shown right now. Is that what you are saying?

Mr Leishman: On their unconsolidated statements, right.

Mr Siddall: If you took into consideration their unconsolidated financial statements and looked at them separately versus looking at the consolidated financial statements, you would get a different impression of the debt.

Mr Phillips: The reason I stay on this is that I think even the members opposite, if they look at their issue-speak on this issue, will find that one of the answers is, "And we will balance the budget in 1997-98." I have heard the speeches in the House. That is ex the capital. I have heard the Premier say that to business groups: "We are going to manage the finances well, we are going to balance the budget ex the capital." So I do not think—

Interjection.

Mr Phillips: That is a fact. He said that. But that is a misstatement of the facts. The auditor would say, I think, that it is not a true picture of the finances of the province. Historically we have said the \$9.7 billion included the capital expenditures, and I think the auditor's concern is if we use this device to create a new set of books that allows the demonstration of a balanced operating budget when in fact we are spending another \$5 billion a year on capital that does not get reported, the people of the province will be—so my question really to the auditor is, how would you respond to a government that said, "We now have a balanced budget," without reporting the capital expenditures?

Mr Archer: Certainly my understanding of the term "balanced budget" as it is used today, to use the current year's budget as an example, I would expect that instead of having a 9.7 deficit we would have a zero or a surplus situation.

With this split between operating deficit and capital deficit, if they were to come along to me three or four years down the road and tell me that because the operating deficit has now gone into a surplus condition they have done what they said they were going to do in 1991-92, I would say, "No, the game has changed." In order for you to be able to say you have a balanced budget today, you have to include the deficit in the capital account as well.

Mr Phillips: I would really appreciate it if somehow you might find the time to meet with the Treasury people to either assure yourself that the finances will be reported in a way that is consistent with what your understanding is or not, because if it is not, at least we should know that. The problem is, we are going to be dealing with the bill next week in the Legislature.

Mr Wiseman: Clauses 15(4)(b) and (c) talk about land and buildings and structures and so on. If we were to go in the direction that they are saying and start writing off the value of physical assets against the borrowing, would you not as an auditor—and I am really fishing for this one—start to say, "Well, you built that road but not only does it have a value but it also has a depreciation in value," and would you not also want to see that start to show up in terms of a depreciated value? That would then show up again as part of the deficit. Would that not be a way to do it?

Mr Archer: It depends what they did with the cost of the road in the first place. If they wrote that off completely to expenditure, then we would not expect them to incur any additional charges for depreciation. It is all written off

initially. However, there would be additional costs for just maintaining the road in normal operating condition. That would go through as it does now, as just a regular road maintenance expense.

1700

Mr Wiseman: It would still show up in the deficit?

Mr Archer: Yes.

Mr Wiseman: I am really having a lot of difficulty because they are saying you can hide this and I am saying I do not see how you can. No matter how you slice it, if any Treasurer tried to say that we have all these assets out here—we bought machinery, we bought trucks, and all this sort of thing—without talking about the depreciated value of that at the same time as talking about the purchase value, I think you, as the auditor, would have a lot of difficulty with that.

Mr Archer: It may be that you have the same misunderstanding that I had as to Mr Sterling's concern. I thought he was worried about hiding part of the overall deficit of the province, but later I came to see that he really was not concerned with that. He was more concerned with getting the split of the overall deficit of the province between operating and capital, that there would be a natural tendency to push as much as you could into the capital deficit so you could tell the people of the province that from a pure—

Mr Wiseman: I understand that. In fact, Ontario Hydro is sitting out there with a \$30-billion deficit guaranteed by the coffers of the province.

Mr Archer: Right.

Mr Wiseman: If I understood you correctly earlier, what you are saying is that other provinces have done the same thing with crown corporations—funnelled an awful lot of this off and said, look, we only have a \$4-billion operating deficit—but there is \$38 billion over here in capital deficit that you have not "consolidated," I think the word is, into your sheet.

Mr Archer: Exactly. But based on what I have heard today and what I see in front of me, Ontario would not be doing that. The entire deficit would be in the financial statement of the province. They would not have to bring in financial statements of crown corporations, like a real estate corporation or what have you, to show you the true deficit position.

Mr Wiseman: Then Mr Sterling's fears about this are not written in here, if I understood your last statement.

Mr Archer: Well, I think his fear is—he can talk for himself here, but as I interpret it, I think he feels the definition of "physical assets" in the act here is so broad that it gives the government an awful lot of flexibility as to what it can put in there, and that naturally, in order to make this operating surplus look as good as possible, it is only human nature to try to put as much as you can into the capital.

Mr Wiseman: My last comment is this then. Let us say all of that was to take place, but the other balancing force within this is the amount of money out of every dollar that the province would still have to pay to service the debt. In other words, the federal government is paying roughly 34.2 cents out of every dollar that it collects to pay

for its debt, and the province is somewhere around 12 cents of each dollar of revenue that is collected.

The result would be that even if you were to try to hide all of this, that expenditure would still show up in the budget document in terms of how much money is being spent on interest. So there really is no way this bill would allow future Treasurers to hide the financial affairs of the province, to separate it off or to segregate it out into different areas.

Mr Archer: I do not know that the bill can be interpreted broadly enough that the government could set up a real estate corporation, for example; in other words, transfer the capital account out of the accounts of the province into a crown corporation. If the bill allowed them to do that, then they could hide it to some extent. However, at some point in the game, if you are trying to get the entire picture of the province, you have to consolidate, bring together the financial statements not only of the government proper but of all the crown corporations that the government has as well. Once you do that, to use your expression, you cannot hide. The true deficit has to out eventually.

Mr Wiseman: Okay, this is the last one.

The Vice-Chair: No, I am sorry. I cannot let you do that. Mr Sterling, you can speak for yourself now.

Mr Wiseman: I am just getting warmed up now.

Mr Sterling: I do not have a problem with them stating what is being spent for capital. I would prefer a much more definitive description of what "capital" or "non-capital" is, and I would really like the definition to say—if you are creating a new asset and not replacing an existing asset which is required for you to continue on serving the people of Ontario, that could be considered new capital to me. If you are putting in a brand-new road, you could consider that, but if you are replacing a road, I think there is a different kind of description.

At any rate, I think the accumulated debt now is about \$50 billion. If you went back through the years, and we had done this—I am just trying to guess off the top of my head, but probably you could say \$35 billion to \$40 billion could have—if all the debt in the years they ran deficit was attributed to capital, probably you could say that right now the capital deficit is \$40 billion and the capital assets are \$80 billion, that have been created over those years—post 1975 or 1977, or even 1971. I am not sure how far they go back. But if you add it all, if we had been keeping the books this way, my concern is that right now a government could brag that it had created since—when did we start creating deficits? Jimmy Allan probably was the last surplus, but—

Mr Phillips: No, no, here it is: 1989-90.

Mr Sterling: Oh, 1989-90, right. Save and except—

Mr Phillips: The first time in 20 years.

Mr Sterling: Yes, right. Save and except for that one bright year of 1990, if we had accumulated all of the capital assets and continued to add them on and depreciate them down, or amortize them down, and added the deficit, I think what we would have is that a ratio of about \$40 billion of the \$50 billion debt now would be against what we would call capital assets, and you would probably have

on the books about \$100 billion in assets that they could have said they had built over that period of years.

My concern is what conclusion people would draw out of that. They would say, "Jeez, you know, it's only a 40% mortgage, and therefore we can incur more and more debt without really being concerned about paying it off." It is the nature of the assets which concerns me, that in creating this capital account, which is wrong and false in terms of what you are telling the people—are there any other provinces or states, which run it this way?

Mr Siddall: Which actually capitalize and depreciate?

Mr Sterling: Yes, like we are talking about here.

Mr Siddall: In terms of the capital fund or of what you are talking about in terms of private sector?

Mr Sterling: No, in terms of capitalizing the assets each year and amortizing them over a period of time. You mentioned that there were a whole bunch of states and a whole bunch of provinces that have capital accounts.

Mr Siddall: Yes, but I am not aware, and I do not know if anyone else is, of any government that is actually capitalizing and depreciating its physical assets at this point in time.

Mr Sterling: And that is what you are doing here.

Mr Siddall: No, that—

Mr Sterling: You are amortizing them over a period of time. Does any other state or province do it as you are talking about doing it here?

1710

Mr Siddall: Alberta does it as we are talking about here, through its capital fund.

Mr Sterling: Not the capital corporations. I am not talking about capital corporations.

Mr Siddall: No, in terms of the capital. They have a capital fund similar to what we are talking about.

Mr Sterling: And it accumulates year after year?

Mr Siddall: Yes.

Mr Sterling: And they march all their debt against that? Of course, they have not had much debt.

Mr Siddall: The debt applicable to the capital expenditures in that fund, yes.

Mr Sterling: And they are appropriating all of their debt per year, as much debt as they have, against all of their capital expenditures?

Mr Siddall: In the capital fund, yes. The difference there is that capital fund is not included in the consolidated revenue fund. It is outside and then it is consolidated, as Doug said, at a later stage into the financial statements of the province of Alberta.

The Vice-Chair: Next on my list is Mr Christopherson.

Mr Christopherson: Well, I guess just to keep coming back, and I know that—

Mr Phillips: We all come back.

Mr Christopherson: Thank you. My question is very brief. Both sides seem to be coming back to a central point, and so I would like to just do the same thing, to get a message clearly to all of us.

The intent, as I understand it, Mr Archer, is that the consolidated financial position will be reflected in the public accounts. I would ask you directly: As long as that is maintained, regardless of the ability to show a subheading breaking the operating and the capital, will the people of Ontario, through looking at the books—will anyone, including yourself, be able to get a realistic picture of the provincial debt?

Mr Archer: Oh, yes. If the books are kept the way we understand they will be, there is just going to be additional information beyond what is available now to the taxpayer or the reader of the financial statement.

The only fly in the ointment, I guess, is the one that Mr Sterling raises. In seeing the deficit now in two pieces, and a large part of it being in capital or physical assets, a reader might say, "We really don't have to worry about that because we can sell that and get our money back." Maybe you could in the private sector if you were dealing with a similar type of thing, but I think his point is that much of what the province has, you cannot sell. There is no resale value. There is a concern, I guess, on his part that the public may be misled by that. The extent to which this happens is speculation, but certainly from our standpoint I think this approach is just giving more and better information into the public.

Mr Christopherson: Is it fair to say that if a Premier or Treasurer of any political stripe were to attempt to do that very blatantly or too blatantly—is the information readily available for yourself or opposition parties to counter with a position that can show the actual debt of the province, based on the way that you understand this is to be set up?

Mr Archer: I think the actual debt of the province will be accurate. I guess the only point is, and again I am trying to interpret Mr Sterling's concern here, that somebody might read the capital deficit as not being of as much concern as the operating deficit because we have hard assets here that maybe we can sell and retire that portion of the debt. Other than that, I do not see any problem at all. Everything is disclosed the same way it has been up till now, with the additional feature that the total expenditures for the year are now split into two pieces, operating and capital.

The Vice-Chair: We are going to have to go to Mr Phillips.

Mr Phillips: Thank you. On page 82 of the handout on the capital budget, in the middle, it says: "The public accounts for 1991-92 fiscal year will show the consolidated...." Can we assume that the public accounts for the future as well will show them, for 1992-93 and 1993-94? That is more like a Treasury report.

Mr Archer: It is our understanding that they will be. I think that question was addressed to Treasury people earlier. I do not know whether even they could guarantee it, but that is the intention, I think, at the moment.

Mr Phillips: I just want to go through this thing on page 83 as well, because it says in one of the paragraphs about halfway down, "By providing an operating surplus/deficit position...." Nowhere do I see, "By providing a capital deficit number." Is it your intention to continue to

show a capital deficit number equivalent to whatever you are spending on capital? That is where, I guess, the Treasury people—

Ms Clitheroe: As I understand your question, and I think it is one that has been answered several times, it is, will the accounts show capital and operating surpluses or deficits?

Mr Phillips: Yes.

Ms Clitheroe: Mr Archer and others have all said that the accounts of the province will show capital surpluses or deficits and operating surpluses or deficits. I think this question has been answered a number of times in terms of how the financial statements of the province will be reported.

Mr Phillips: Okay, but it does not say it in the document here.

The Vice-Chair: I am looking at page 83. Under the table there, the first sentence indicates that, does it not? Just as a point of clarification for you.

Mr Phillips: Okay, because we are dealing with stuff in the future. So it will all be reported the same way that is reported?

Ms Clitheroe: I believe Mr Archer concurs with me.

Mr Archer: Yes, that is certainly our understanding. Not only will this method of presentation apply to the 1991-92 year, but thereafter. This act applies basically to thereafter.

Mr Phillips: Yes, I know.

Mr Archer: Our concern is to sit down with the Treasury people and make sure the wording that is here does not change the intent.

Mr Phillips: If you could do that, that would be very helpful.

Mr Sterling: I do not quite frankly know the answer to this, but I guess I said it before: If the government gives to the municipality or directly spends \$1 million to replace a road that has been in existence, served the public, and the government really has no option to close that road, is it fair to call that a capital expenditure?

Mr Archer: You raised a similar question several times throughout the proceedings here. You are identifying a problem which is a problem in the private sector as well. When does a repair or regular maintenance become a renovation or a re-creation, if you like? Usually there are in-house rules set. If it is a road, maybe if you spend up to \$50,000 it is a repair, if you spend beyond that it is a renovation, so in that case you capitalize it. If it is under \$50,000, you just treat it as an operating expense. You would have to come up with some reasonable house rules to distinguish between normal operating repair versus long-term re-creation or resurfacing or whatever.

Mr Sterling: If the province sells a piece of crown land, should it have to include that as capital income against the borrowings or the deficit which is going to be created in the capital fund?

Mr Archer: I think that would be a reasonable course of action. If it is an asset that has been created subsequent to this new approach being taken, yes. If we have set it up in the capital fund at the time of purchase or creation, then

I think the revenue from any sale of it subsequently should be credited to the capital fund.

1720

Mr Sterling: Can I take an example then, just for the purpose of discussions? SkyDome was sold this year for some \$100 million. I am not sure of all the machinations or whatever, but would you expect that if it had been sold in the next fiscal year that would be shown or should it not be shown?

Mr Archer: If the \$100 million, when it was originally disbursed, appeared in the capital account—

Mr Sterling: So you are in agreement with them. It only counts as a sale if it was brought in originally.

Mr Archer: Right. That is how I would treat it.

Mr Sterling: Then if a bridge is constructed—and I think they have said they are going to amortize these over 20 years. Is that correct?

Mr Archer: Yes, everything is being amortized over 20 years.

Mr Sterling: Or straight-line depreciating.

Mr Archer: Is it just a straight line?

Ms Clitheroe: The treasury board would be looking at classes and determining the useful life of classes of assets. Whether or not that would then be translated into one number that was some sort of average number or whether a more complex system of different classes with different percentages would be created is yet to be determined by the treasury board, but it would be in that manner that would be created. That would be consistent with what your expectations would be.

Mr Sterling: If the bridge falls down after five years, would you expect it to come off the capital account?

Mr Archer: This is a judgement situation. I am sure that would be balanced by situations where the asset lasts much longer than, say, 20 years.

Mr Sterling: So you would not require them to keep accurate records of each asset.

Mr Archer: Not unless it was a major situation. I would say just consider the average situation, that it is going to last 20 years, and not bother with individual adjustments.

Mr Sterling: If we are talking about capital, I am concerned about liabilities as well that are created over the year. Should the budget of Ontario state—I do not know whether in the capital fund or wherever—increases in liability in workers' compensation and in Ontario Hydro as well as what is being reported now?

Mr Archer: I am not quite sure I understood the question.

Mr Sterling: We have lost \$1 billion in workers' compensation this year, unfunded liability. Should that be reflected in terms of something associated with—we are saying on the one hand what is in capital, and there is a fairly large expenditure in government; \$4 billion or \$5 billion is 10% of the budget. But we are also creating a number of other liabilities which are pretty big numbers too. We seem to be getting close to a balance sheet. We are creating a capital account on the one side, and if we are

going to do that, should there not be a liability side as well if liabilities are increasing?

Mr Archer: I do not know if the two questions are related. Take the Workers' Compensation Board as an illustration. Whether the net position of that fund should be included with the province's assets is a bit of a moot point, because the philosophy is that it is a liability of the employers in the province, not the province of Ontario. I would not want to get into a debate on that subject.

The Vice-Chair: My understanding is that we were to go to 5:30. I have two more people, so I am going to ask them for questions and then we will proceed with our debate as a committee.

Mr Wiseman: I have a really quick question because it is something that interests me. When the capital part is put in the budget, is it the intention of Treasury to list land purchases X amount, machinery purchases X amount, etc, so that you can see where you actually spend the money? For example, if you build bridges and highways, would it be included and would that make sense from a point of view of allowing people to see exactly where their dollars are spent and how much and so on? I would be interested in seeing that.

Ms Clitheroe: The Public Accounts of Ontario, as you know, are extremely detailed.

Mr Wiseman: This would have to be a précis of that.

Ms Clitheroe: There would be an explanation at some point of what the capital fund consists of. How detailed that would be, whether it would get to Mr Sterling's bridges in particular locations, I think is unlikely. But certainly one would be able to understand the general classes that would be involved in the capital fund.

Mr Stoodley reminds me that of course the estimates would always identify the capital expenses in detail as well.

Mr Wiseman: I know, but it goes back to my other question on depreciation. You could then say what could be, in a business sense, automobiles, machinery that was purchased, etc. You could see that and understand that could be depreciated in a real way and in a normal way, as opposed to a highway or a bridge or something that could not be.

Ms Clitheroe: If the question is, will it be understandable, the types of assets that are in the capital fund and what is being done with them, yes.

Mr Wiseman: You asked the question much more succinctly than I did.

Mr Phillips: Just in case I do not get a chance, I want to thank the auditor very much for being here on short notice. I look forward to his comments over the next couple of days as we meet with the Treasury people.

I gather the reason for passing this bill is to permit them to change the reporting mechanism. What prevents them right now from just reporting in the fashion they would like to. I assume that in the 1991 budget, capital was split from operating? What is the legislative need for change?

Mr Archer: Mr Stoodley I am sure can answer that. Frankly, I was surprised we would require legislation in

order to do this, but presumably there is something in the Financial Administration Act that requires it.

Mr Stoodley: The main reason for legislation in this area was to attempt to establish guidelines for how an expenditure would be a capital expenditure, to set up the requirement of allocating those expenses—this is, as I understand it, a notional allocation in the accounts—of which ministries the expenses that are shown in the capital account came from, and principally to establish a process for the writing off of the capital account. Finally, to provide a definition of capital in the hope that would give some certainty to what expenditures would be in the capital account.

It was mostly the definitional problem and the assigning to treasury board of the role of determining the amortization procedure that required the legislation in my view. Much of it could indeed have been done as an accounting change.

1730

Mr Phillips: In terms of one prime use in there, I hope the auditor might look at the process for amortization and writing off. That is where it gets a little bell going off in my head, because I am just curious about the need for the legislative change. That was a very helpful explanation the lawyer gave.

Mr Stoodley: The amortization, sir, is mostly to allow the treasury board to have the authority to decide whether there should be an average of all classes or whether you should try to set different periods for different classes of expenditure, questions to which I do not have an answer.

The Vice-Chair: Again, I want to thank the auditor and his assistant and the Treasury staff for coming in on such short notice. To the auditor, on behalf of the committee, I thank you for your service to the province and wish you all the best in other endeavours you may be taking on. Again, thank you to everyone for coming in.

Mr Archer: Thank you.

The Vice-Chair: I guess now that we have been able to have a great deal of questions asked, both to Treasury staff and to the auditor and his staff, we are at the point

that was agreed upon, that we would spend one day discussing this and then have a vote and have it go from there. So at this time, I would like to ask if there are any amendments and, if so, to which sections at this time. None at this time.

Mr Phillips: The one thing Mr Sterling did mention was whether the Treasury people would consider quarterly disclosure of their range of investment. I do not know whether they have had a chance to think about that.

Mr Christopherson: I heard the request and talked it over with the staff. My understanding is that the information is available. If you want it on a quarterly basis, all you need to do is ask for it and it can be made available. We would rather not build it into the legislation, simply because it is a fair bit of paperwork, and if it is not going to be used, we are again putting more pressures on a system that is already facing a lot. I am assured that the information is there for anyone who would like to request it, so if you would like to request it every quarter, you are welcome to do so and we will supply it.

Mr Sterling: I will want that amendment in the legislation and I will either put it in my form or whatever. I do not buy the answer. If it can be produced for me, it can be produced for everybody. I think it should be produced in a public document.

The Vice-Chair: Okay, but you said you were going to wait until it gets back in the House in committee of the whole?

Mr Sterling: Yes.

The Vice-Chair: All right then, if that is the case, I will call the question. Shall the bill carry?

Bill ordered to be reported.

The Vice-Chair: This committee is adjourned until next Thursday at 9 am, when the Treasurer is coming in to discuss various issues, including his views on consultation around the budget.

The committee adjourned at 1736.

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Pre-budget consultations

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Journal des débats (Hansard)

Le jeudi 19 décembre 1991

Comité permanent des finances et des affaires économiques

Consultations prébudgétaires



Chair: Zanana Akande
Clerk: Todd Decker

Président : Zanana Akande
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LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday 19 December 1991

The committee met at 0905 in committee room 1.

PRE-BUDGET CONSULTATIONS

The Vice-Chair: The standing committee on finance and economic affairs is called to order. The Treasurer has another commitment to attend at 10 o'clock and there are several items we wanted to discuss. Among those issues is one I believe the Treasurer has mentioned: opening up the budget consultation process and pre-budget consultation process. As the Treasurer knows, this committee has done some, so we look forward to hearing his ideas. Probably committee members will have questions about other issues related to this committee's mandate.

Hon Mr Laughren: I appreciate very much the committee reorganizing its schedule to accommodate mine. I know this is not your regular meeting time and I appreciate that. Having chaired a committee for some time, I know how difficult it is to make that happen, because people do have other plans as well.

I want to talk to the committee basically about two things: One is the whole question of pre-budget discussions and the other is the question of budget secrecy, and the two are related.

As you know, historically there have been all sorts of pre-budget meetings that start some time around now and go through until February and March. I engaged in that process last year. I thought at the time it was terribly self-indulgent for everybody to have the Treasurer sit there, and in some cases the committee as well, and have a group come in and make its case almost in a vacuum, stating what it wanted or thought was best. Then the next group would come.

I often use the example of one case last year where the flue-cured tobacco growers came in and then in the next hour, the next group coming in was the non-smokers' association making exactly the opposite argument. I thought afterwards, why were they not in the room at the same time, listening to each other and hearing each other's argument? That is really why I used the term "self-indulgent". It was not their fault they were being self-indulgent; that is the way the process had evolved over the years.

We are determined to make a change in the process and make it more of a challenge to people who come either before this committee or come into Treasury. We really want to make the discussion leading up to the budget more broadly based so that people hear each other.

About two weeks ago, I had a request from the Minister of Colleges and Universities to meet with the university management people. I said, "No, if we want to get the students' representation and the faculty representation and the university management administrators there, that's fine, but not one on, one off." It actually happened, and it was an interesting discussion. One person would say, "If

you're going to give us a low transfer payment, you had better bring in wage controls." Then the faculty person would respond, "Wait a minute, we have an opinion on this too." It really did force the groups to deal with each other and to listen to the other arguments.

We very much want to do that this year. I think that slowly the budget process will become a year-round process as opposed to everything crunched in a period of a month or two months. I would very much like to hear from the committee its views on this and to what extent the committee can help us do this and make it more meaningful for the committee too.

If that is to happen, there has to be more sharing of information, otherwise you are dealing in a vacuum. What we want to do is put out the economic outlook for the province on December 10. That is stage 1. It tells how we see the outlook for the province, puts it in a kind of context. The next step will be in January. We want to release a document that is going to be more of a popular kind of document, a very user-friendly booklet of 20 or 30 pages that will explain the budget process.

If you want more detail on that, I have a draft of a table of contents to show what we have in mind. It is not done yet, but we want to distribute it widely. It would go to whomever wants it. We have a 1-800 line set up and the booklet will be available to people who call, as well as groups who come in and talk to either us or the committee, if that is what you decide to do. I really do hope you decide to take part in it. I know you set your own agenda, I do not set it, but I very much hope that you will see this as a useful exercise for everybody concerned.

The second stage would be the release of a document that explains the budget-making process. A third stage would be the release, and we are working hard on this now, of what for lack of a better term I would call a fiscal framework document. This would lay out the scenario of what we are staring at next year—some people will call it the abyss; I would not be quite so pessimistic—what our expenditures are headed for, what our revenues look like, and therefore what the potential deficit is if nothing is done.

We want to be much more open about that. Why would we not want to share that information? Why should we internalize that, not just because it is a problem, but why would we not want people to have a look at that? I do not think the pre-budget discussions are very meaningful if they are not done in the context of the problems we are facing.

We will be looking for advice from people on how to deal with the problems that will be shown to be there in the fiscal framework we put out, soon we hope. I am getting very leery of giving dates, because I remember backing down on them it seems, referring to transfer payments in

particular, when I vowed we would get them out in December, but we will not.

I really would like to get this part of the process done in January. Then in February and part of March we have set up 11 sectoral discussions we are trying to work on. The one that kicks it off is on January 29. The date is fixed in my head because the next day is the next meeting of finance ministers in Ottawa. On the 29th there are two Premier's councils, one on health and one on the economy, and I would go and make a presentation to the two of them together. It will be very much a cross-sectoral representation because of the makeup of those two Premier's councils.

Following that there would be a series of roundtables. Beforehand, people would be sent all the information we have and be briefed before they come to the meeting so that they did not come in cold and listen to me for an hour on the fiscal presentation, which would mean we could have a more meaningful discussion when it actually occurs. That is our goal.

The second issue I wish to refer to is secrecy. As you members will know, the whole question of budget secrecy flows from the British parliamentary system, where it was terribly important because of the possibility of someone realizing some material gain because of a budget leak and so forth. But it became more than that; it became shrouded in a mystique that if anything leaked from a budget it was seen to be serious and there were calls for resignation of finance ministers and treasurers. They never did resign; I cannot find anybody who did. Nevertheless it was always a very hectic time, with calls for resignation, or in some cases they offered resignations that were not accepted, and so forth.

Mr Phillips: You have really studied this.

Hon Mr Laughren: I have studied this. I don't think I want to open this thing up.

Mr Phillips: For your job security.

Hon Mr Laughren: I hope it is not seen to be self-serving, because I think if we are going to show more information to people and share more information with people, then we have to get into a different mindset on what is secret and what is not secret.

Obviously you cannot reveal every single thing, because of that question of material gain that somebody might realize. But aside from that fairly narrow aspect of the secrecy that surrounds the budget-making process, it seems to me we can be a lot more open and we would really like to be. As I say, I hope you do not regard it as self-serving. If we are going to engage in meaningful pre-budget discussions, we have got to be more open about the information we have, and that leads to the whole question of what is secret and what is not secret. I seek your advice on that as well, what way to do that, what can be revealed without its being called into question and to what extent you would like to see it formalized. I do not know what the advice of the committee would be and I am not presuming anything, but we really want to make it more open.

On the other hand, I would seek your advice on the way in which we deal with interest groups who historically have been able to come in and just make their case, and

how to get people together and make the discussion more meaningful, and the role that I very much hope the standing committee would play in this, because we cannot do it all alone. I would be pleased if the committee decides, in its wisdom, that you would play a meaningful role in this whole process.

I will stop talking and look forward to your comments. If you want any information on this booklet we are going to put out, please let me know and I will go through the headings we are working on that will give an idea of what will be in it.

The Vice-Chair: We have about 40 minutes left. I wonder if we could spend at least the first 20 minutes focusing on the Treasurer's comments about the budget consultation process. Then if there is a great demand for questions about other topics while the Treasurer is here, we could do that in the last half.

Mr Phillips: I appreciate the discussion. I am not sure the Treasurer is aware of the level of cynicism we have right now. Believe me, I trust you, and I think the province is fortunate to have you as Treasurer. But I have become very suspicious of the process here. You were here just before we headed out on our summer budget hearings and you were saying you would look forward to them. They were probably the biggest waste of my time in my life.

Hon Mr Laughren: It was not because we insisted on its being done.

Mr Phillips: No, but I will tell you what happened. The Premier's office phoned groups that, note, support the budget. I believe that to be the case; if you can prove me wrong, I would be happy to know that. At the end of it, it was a useless exercise and I became very cynical about it. On the final day of hearings, before we even discussed it, there was a sort of a press report declaring the results of it.

The Consultation Central Co-ordinating Committee document has quite significantly undermined the process, because in that document, as you know, it says things like, "Consultation kickoff is planned for the NDP provincial council at the end of November.... We will have workshops based on the budget approach last summer," which was, I gather, the approach the NDP used. Central to all of this are the pre-budget consultations. "The Treasurer announces plans for pre-budget talks," and what not.

0920

I have been following the Fair Tax Commission work a fair bit and I am becoming increasingly worried about that. I see it has hired 20 community animators. It is doing many of the things the CCCC planned. We have a big hill to climb here for some trust, because I have this feeling I am merely, as this committee member, a part not of an honest, pre-budget consultation process, but of a political agenda. When you start from that, it makes it very difficult to know whether we are playing a straight game here—not with you. I assure you I have total confidence in you, but I am not sure that you are in control of this other thing. Before we begin the process, I think we need some assurances that we are not simply being used.

Hon Mr Laughren: I appreciate your directness, although I regret that you feel that way. There is no question

that process last summer was very politically driven. There is no question about that. It was very partisan. I am not saying this critically. I have been through this myself in opposition. The hearings were demanded by the opposition and we resisted. Then we conceded and held the hearings. That happens. You cannot take the politics out of politics.

When that happens the three political parties—presumably they would be pretty stupid if they did not—will phone and get people to come out to express their views on the budget. I do not think there was anything underhanded about that. Mr Phillips, you will recall what happened with the labour legislation.

Mr Phillips: I remember the conference.

Hon Mr Laughren: No, I am thinking of when the standing committee on resources development went across the province and held hearings on the Workers' Compensation Board, Bill 162.

Mr Phillips: I was Minister of Labour around when the coffins were brought out. That was Bill 208.

Hon Mr Laughren: Bill 208, yes, you are quite right, not Bill 162. I can recall the way in which that was orchestrated as well. I think that is a totally separate phenomenon, when something like that is forced. First of all, it is a force fit on the system because traditionally that has never happened before, so the opposition won. That is fair game and they got the hearings, but it was a very political activity. I draw a line underneath that and say that happened.

This process involves the bureaucracy at the Ministry of Treasury and Economics, and that is not a political bureaucracy, I can assure you. I have every confidence. I never felt that before and I do not feel it now.

Mr Phillips: I agree with that totally.

Hon Mr Laughren: We want to change the budget-making process, without any kind of hidden agenda, so that it will be more open. It will help us and I think it is meaningful. I hope that is not everybody's sense. I understand where you are coming from, but I hope that is not the sense around this process because that is not in any way connected to that committee you referred to. This is being run by the Ministry of Treasury and Economics; it is not being run by anyone else, so in that sense it is not a political activity or a political agenda at work.

The Vice-Chair: Do you have a second question, Mr Phillips?

Mr Phillips: Why not go around? That will give everybody a chance.

Mr Carr: I want to thank you first of all for coming, Treasurer, and also for opening up the consultation process. I would like to be part of it. If I could make a suggestion, possibly when you have dates available for these you could send them to the committee clerk who could then send them out to some of the members—since I am not a permanent member, Todd, perhaps you could remember to include me—and then we could come into some of the meetings. The way I see it working, if there is a date you are meeting with a particular group—and I think it is great that you have them all together; I want to credit you for that process—then I can say, "Yes, I'd like to go," and

Mark can say, "That's of interest and I'd like to go." That might be the best way to do it.

One of the things I want to talk about is the process and how it ties in with the Fair Tax Commission. I have been telling people that the Fair Tax Commission has the potential to be the biggest change in the history of this province on taxes. The process is laid out. We had in Hugh MacKenzie who laid out the process: very detailed and very complex.

My big concern is that in spite of all the advertisement and the talk about it, the average person does not know about it. I am saying to business groups we have this Fair Tax Commission that is going to be the biggest change in the history of the province. All the polls are saying taxes are the big issue. The Canadian Federation of Independent Business says that in the polling it is doing taxes are the all-time high. That is not just you, that is federally, provincially, Mulroney and everybody. It is a real key.

One of the concerns I had when speaking with you was that the Fair Tax Commission corporate side is going to report, and after reading some of the reports and hearing some of the discussions, I do not know if it is going to come up with an agreement. They will have something in January. The way I understand the process, they will report and then your budget will incorporate the decisions that are being made. I am just wondering how in your mind you are tying the two together. When a lot of businesses come in, they will be talking to you about tax information, for example, when you are meeting with them. In the pre-budget they will talk about that when they sit down with you, and all the other things.

There is also this Fair Tax Commission that is then funnelling into you. I want to get a sense of how you see it working, because it is very confusing. I understand that in the budget what we will see are major corporate changes from this Fair Tax Commission. Meanwhile, the business community has not had a chance to funnel in. The intent is to get a tremendous amount of input, and I believe you when you say that. But the fact is there has not been much, other than the same old groups, the manufacturers and so on. We have not had a chance to go to Stelco, which I as an individual would like to do.

I want to know how you see these things tying together with the Fair Tax Commission plus this pre-budget submission.

Hon Mr Laughren: On your first point about letting the committee know, we certainly undertake to do that with regard to when the discussions are going on and so forth. On the Fair Tax Commission, the question of whether or not everybody knows about it, I think a lot of people know about the Fair Tax Commission, but beyond that, not a lot. The tax commission consists of the commissioners and the working groups. I know Tom Sweeting is here. I think there are eight working groups working with the commission and each has a specific tax area for which it is responsible. They got kicked off in the summer. I can't remember the exact date now. It was a kickoff for all the working groups. The working groups could have anywhere from ten to 20 people on them, so it involves a lot of people.

We worked very hard—we are supposed to work hard—on trying to make those working groups representative, because it made no sense just to load them up with people who will have only one point of view. That is why, for example, there have been reports about differences of opinion on the corporate minimum tax. That is fair. Why would there not be? They are churning away now. Partly because of the high profile of a couple of the taxes we talked about a lot in opposition and during the election campaign, namely, the corporate minimum tax and the land speculation tax, we asked them to fast-track those two and try to report to us in calendar year 1991. They cannot do that. They are going to report in the new year though, I think, on the land speculation tax first and I think within a month or so. The corporate minimum tax is causing them problems. It is not because there was any deliberate attempt to hold back information from the federal government, but there was a real problem getting the information and it is going to take longer than they thought. I gather now it is February or March before we will get the corporate minimum tax. I just want to make that clear.

0930

I do not even know how the Fair Tax Commission is going to do it, because believe me it operates very much at arm's length from us. I have one person on staff to whom they report and come through, but I have very little day-to-day operations with them. I sign the letters that appoint people to the working groups and so forth and that is about it. Their job is to go out and hold some hearings on the different taxes. I hope they will travel a bit in the province. I do not know what their plans are in that regard. That will be next year.

When they are finished, the working groups will present their reports through the commission to me. Then it is up to us as government to decide what to implement from those reports. They will be public, so we cannot hide and pretend they say something they do not. In the end, the responsibility is for us to decide what we do here. A corporate minimum tax is a good example. If they come back and say, "This is loony tunes. Don't do it," and decide the capital tax is a form of minimum tax so "don't bother," then we will have to make a judgement as to what we do. Or if they say, "No, there is room for movement," then we will do it. They understand this very clearly. It was laid out right from the beginning that the Fair Tax Commission has an arm's-length relationship and then reports in an advisory way as it completes its reports. At the end, I hope they would be able to take a look at all the work they have done and give us some kind of summary or synopsis of the tax system in Ontario.

Mr Carr: Do I get a short supplementary?

The Vice-Chair: No. We are going around. We will get back to you.

Mr Morrow: Gary, I apologize for that. Floyd, thanks a lot for being here this morning. I understand there have been some hearings or dialogue with the group, and you will excuse me if I do not have the name correct. I think it is called MUSH. Is this process going to be repeated? Is it going to be done again?

Hon Mr Laughren: I am not sure what you mean. The MUSH sector is the group we traditionally call MUSH because they represent the municipalities, universities, schools and hospitals. They are the recipients of the transfers from the province, and that represents 30% of our budget. Perhaps that is what you are referring to. When we make the major transfer announcement in the new year, they will be the happy recipients of the transfer of money from the province to them.

The Vice-Chair: Representatives from those different sectors together have already come before the committee. Is it your suggestion or advice that the committee do that again with those individual groups in the new year or just deal specifically with different areas, or are you looking at pulling one from each of the four areas of MUSH?

Mr Morrow: That is what I was going for.

Hon Mr Laughren: Okay. Part of the problem in that is that presumably we will be making the major transfer announcements, I hope, in January, and after that I question to what extent it would make sense to have the MUSH sector either at the committee—not that we would not welcome them—or to talk to me, because the big decision would have been made by then on the transfers to them. That is the only problem with what you are suggesting.

The Vice-Chair: Mr Sterling?

Mr Phillips: Are we going by person or by party?

Hon Mr Laughren: It is an important distinction.

The Vice-Chair: Sorry. Mr Phillips.

Mr Phillips: Sorry, Norm.

The Vice-Chair: I had not seen you put your hand back up for another question. That is why. But go ahead.

Mr Sterling: The trouble with you, Gerry, is you filibuster when you do not know you are filibustering.

Mr Phillips: Exactly.

Hon Mr Laughren: Where do you think the term "Philibuster" came from?

Mr Phillips: Just to summarize on that first point, I still have some concerns about the process and I hope you understand why. On the status of the budget and where we are at for this year and next year, we are trying to get a feel for that.

There are two big aspects, I think, to this year's budget. I know you are staying with the \$9.7-billion deficit, or lower, which is good. Corporate tax and fiscal stabilization are both important elements of it and, as you know, we have some concerns about both of those. I know you feel confident about the fiscal stabilization plan.

As you know, the federal numbers are out now for the end of October for the corporate tax, and I assume you now have the fiscal stabilization application prepared. Can we feel confident that the fiscal stabilization plan will in fact be approved by the federal government and that we are not looking at any significant changes in the corporate income tax for this fiscal year?

Hon Mr Laughren: I can reply with more confidence on one than on the other. The fiscal stabilization application

is going in, I think, perhaps even tomorrow. I am not sure, but it is going in within a matter of a day or two.

Ms De Koven: Hopefully the end of this week or early next week.

Hon Mr Laughren: So it is going in almost as we speak. The number we released a couple of weeks ago was \$585 million. There is nothing magical about that number. When there is a major downturn in a province's revenues, it kicks in on a per capita basis and it is \$60 per capita. I think that is correct. If you multiply it by the population, you get the \$585 million, so that is the number. However, that is the cap. The cap says \$585 million. It would be a lot more than that if it was not the cap.

So we send in the application and the next question is whether or not they give us the money this fiscal year, whether or not they process it quickly enough to get it in this fiscal year. For obvious reasons, we hope they do. Last week I made the point as best I could to the federal Minister of Finance, Mr Mazankowski.

They have to look at the application very carefully because it is quite complex. It involves an assessment of what the stabilization fund would be if certain tax changes had not been made at either the federal or provincial levels. So it is not just a magic formula. The \$60 per capita is straight, but then it has to be applied to the extent that taxes were changed during the two years for which it applies. They have to look it very carefully, and I understand that.

The point I made to Mr Mazankowski was that since the number without the cap would be way in excess of the \$585 million, treat the \$585 million as an interim payment and get it to us. To what extent he will buy that argument I do not know.

Mr Phillips: Is your application a public document?

Hon Mr Laughren: Not at this point because of the negotiations that go on with the federal government. Quite frankly, I think that is a fair question. We really do not want to debate the intricacies or the niceties of it in public. We would like to sit down quietly with the federal government, rather than try to turn it into a media show or whatever, a political sideshow. We would sit down in a very methodical businesslike way and work out the numbers, and not make it into an accusatory kind of situation where we are demanding this and accusing them of that, because that really is not where it is at on this one. I think it is a case of coming to an agreement on the way the numbers are calculated. We very much want to proceed that way rather than having a big public fight over it.

0940

The Vice-Chair: Mr Sterling.

Mr Phillips: What about the second one?

The Vice-Chair: Sorry. Mr Laughren, you talked about fiscal stabilization. I thought you talked a bit about corporate tax.

Hon Mr Laughren: No, I did not.

The Vice-Chair: Did you have any additional comments on corporate tax?

Hon Mr Laughren: What was the question about corporate tax?

Mr Phillips: I even remember it. I said the federal numbers are out now which show about a 25% decline at the end of October.

Hon Mr Laughren: Yes, I am sorry. I have no doubt that we are entitled to that fiscal stabilization fund. There is absolutely no question in my mind that it will come to us.

Mr Phillips: By the way, the numbers I see show revenue increases each year.

The Vice-Chair: Sorry, we are on the corporate tax issue.

Hon Mr Laughren: On the corporate tax, that makes me nervous, I can tell you. We took a big hit last year, over \$1 billion. We projected a substantial decline in corporate tax revenues this year. To what extent it was enough I do not know, because it is pretty tough out there. Because of the way the corporate sector reports, I gather we will not even know our corporate numbers until March because of the timing of the reporting.

On that and the sales taxes also, we have the October numbers now and they are not very good. We do not have the November numbers yet, of course, nor the big Christmas numbers. That is another area where we are very anxious about what they will be, because the recovery is very slow. I do not know whether that answers your question. On the corporate tax, there is some nervousness about the numbers, but at this point we do not have any numbers that show we are not going to get what we predicted.

Mr Phillips: At least the economy is doing better.

Mr Sterling: Just two quick questions. On the Fair Tax Commission, the working groups are going to be producing reports. Where are those reports going to go?

Hon Mr Laughren: They go through the commission up to me. The commission does not change them. They go through the commission for information and then to us.

Mr Sterling: When do they become public? When do they become accessible?

Hon Mr Laughren: As far as I know, they are public documents when they come through to us. They are not meant to be secret documents or anything like that. I have not got in my mind the process by which they suddenly become public, but we want them to be public documents.

Mr Sterling: Floyd, I would like to ask you more of a general question, a question that bothers me. There is a lot of difference between the fiscal policies of this provincial government and this federal government. Whether you agree with one side or the other, we are going through a constitutional battle at this time, or not a battle but a readjustment.

I am not really concerned about the differences that exist at this time, but if you look at the voting patterns of the public in the past, it seems that the Canadian way is to elect different provincial governments than it has at the federal level. How are we doing to get out of this dilemma where we have differing fiscal policies at the provincial and federal levels really nullifying each other? In other words, you have one government acting this way and one government acting that way and therefore confusion reigns.

Mr Phillips: Not a federal NDP government.

Interjections.

The Vice-Chair: Okay, can we keep focus here, please.

Hon Mr Laughren: The answer to the question lies in the question itself.

Mr Sterling: But there is a real problem. I am of course not objective about which one is right, but the problem is there are no solutions if one is fighting the other.

Hon Mr Laughren: I do not know who was in the House yesterday when we did the supply bill, but in very brief comments I remarked on the fact that we have a federal government that disagrees with our fiscal policy and a provincial government that disagrees with the federal government's economic policy—monetary policy is a better way of putting it. Yes, that is a concern and it is one of the reasons, though not the only one, that I am not cynical about the first ministers' conference on the economy, which hopefully will lead to other meetings as well. I think these things have to be sorted out.

I know the federal government thinks Ontario should not have run up a deficit this year. They think we should have battened down the hatches—without being pejorative about using that term—and dramatically cut spending, like \$10-billion worth, or some portion thereof. I remain convinced that to have done that would have been just so disruptive to the social fabric of this province that I certainly would not want to be associated with it.

Anyway, I do not think that is dealing with your question of how we reconcile a federal government with a certain set of monetary policies and a provincial government with a certain set of fiscal policies.

Mr Sterling: No, it is not.

Hon Mr Laughren: I do not think there is an easy answer to that other than to sit down and try to work things out. I do not see anything contradictory, for example, about the province of Ontario sitting down with the federal government and saying, "We all know there are economic problems." I do not think we are going to convince the federal government and John Crow in the short run to change their monetary policy.

At the same time, there is nothing contradictory about working with us, for example, on a program, whether it is housing or whether it is some other kind of infrastructure, improving the infrastructure of the province with federal assistance. That is not really contradictory to their monetary policy; it may be somewhat contradictory to their fiscal policy, because they do not have much room to move, but we can surely work together on that. I do not think one precludes the other. So I am not as pessimistic about the differences in philosophy on that.

Mr Wiseman: I am going to change direction a little bit here and talk about the budgetary process itself. Over the last few weeks we have had different sectors come in, the municipalities, the universities, the schools and the hospitals. One of the things that was common to all their presentations, I think, was the fact that they get the word so late in their own budgetary process. Is there some way of multi-year budgeting or changing the beginning of the fiscal year so that there is a greater synchronization, so that there is not as much of an unknown when the municipali-

ties are doing their budgets, and the hospitals and universities and schools? This is one of the things they are really concerned about.

Hon Mr Laughren: I think that is a fair comment. I have even had representatives from those sectors say to me: "Look, for heaven's sake, even if it's bad news, give it to us soon. Don't leave us hanging out there." That is why I have always been a strong believer in getting the announcement out some time in November or December. We did not do it this year, but one reason we did not get it out in time this year is because we do want to move to a multi-year arrangement with them and tell them, "This is what we want to transfer to you this year and this is what we see in the next couple of years as well." That has caused us some problems, because it is harder to do.

It is more than three times as hard to do a three-year announcement than it is a one-year, because it gets more complicated as you move into the other years and think about the annualized costs of programs and enrolment projections or whatever. It has been more difficult than I thought it would be to do a multi-year plan. My own sense is that we are better to take the extra month and do the multi-year plan, rather than get out the one-year plan now. In the end, that was really what it came down to. That is why we delayed. But I agree and I think the MUSH sector would be much happier with the multi-year plan. Then, as you say, it can get its house in order.

0950

I think this is an important point: There has to be a basic restructuring of the MUSH sector out there, whether it is the universities or the hospitals or the school boards, because in the past, and particularly in the health care system, there was always more money to fix it up. They could always find more money. That is not the case any more, so there will have to be a fundamental restructuring out there. You cannot expect them to do that in a matter of a couple of months. That is why it is so important, I think, to have the three-year numbers out there so they stare at those numbers and say, "Holy mackerel, if we're going to cope with enrolment increases and an aging population and still cope with these kinds of numbers"—whatever they will be, and they will be low—"then we're going to have to do things differently." That is why I think it is to everyone's advantage to get the numbers out there for more than a year in advance, so they are not caught by surprise.

Mrs Sullivan: Mr Chair, Mr Phillips has a question. I want to be put back on the agenda, however, because I have one as well.

The Chair: Okay. The Treasurer has to leave in about six or seven minutes, so we may not get back to you if we go to Mr Phillips.

Mr Phillips: It is a fairly fundamental one and I wanted to make sure I got it on. The budget you are preparing now sounds very much like the budget many people thought you should have prepared a year ago. There are many people who feel a year has been wasted in getting on with tackling restraint—not laying off thousands, but trimming back. I know you stoutly defend the 1991 budget, but

you are saying some very different things now about 1992's budget. Could you at least acknowledge, in the interest of getting on with this debate, that perhaps if you had to do it all over again, you might have started the restraint program 12 months earlier?

Hon Mr Laughren: I have very little interest in encouraging a headline that says, "Treasurer Admits His Budget Was All Wrong."

Mr Phillips: There are no press people here. We will not tell.

Interjection: We will be sworn to secrecy.

Mr Christopherson: Just us friends, right, Gerry?

Mr Phillips: That is right. This is not a trick question.

Hon Mr Laughren: I am looking forward more to Barbara Sullivan's question.

There are a couple of points to be made though. I think it is a serious question and I do not want to trivialize it. One is that if I were to lean towards your view of the world, I would say that we formed the government on October 1. It takes a little while to find where your office is and to get to know the bureaucracy and to get the whole thing moving. If we had done anything different, it really would have been across-the-board cuts, like a 10% cut in everything. I am picking a number out of the air. It would not have been a very methodical or strategic way of doing it. That is sort of putting your spin on it. We could have done that, I suppose.

What we did instead, and this is a defence but it is fair, I think, was establish an internal mechanism called the treasury board, which is looking at all major expenditures and all potential sources of revenue with a view to reallocating, and in a very fundamental way, I hope, we will see what shakes down. Every time you tamper with something that is well established out there, the water gets very heavy. Your government did it when you simply, with some help, banned extra-billing. We are getting it, running into heavy water, with the threshold limit on doctors' billings. If we change the OSAP system, there will be major noise about that.

Every single thing we do is going to cause major problems out there. I am totally committed to making some of those structural and fundamental changes, but doing them in a way that is thoughtful and keeps in mind to what extent we are picking on one group versus another and to what extent we are making all groups share the burden of a whole new world out there.

We had an absolute decline in revenues this year and it will be flat next year. That is two years in a row. That has never happened. How can you cope with that, with increasing enrolment, all those pressures that you know as well as I, without fundamentally altering priorities, restructuring programs and perhaps cancelling some? It is just not possible to still control the deficit, even at the numbers we are forecasting, which are historically high. To have done it any other way than we did would not have been very smart. It would have been like taking a meat axe to it.

Mr Carr: I have been travelling around the province, speaking to businesses. I was up in Waterloo. They are saying to me: "We don't believe the Treasurer believes us

when we say we're going to leave. We don't need to be political to you"—meaning me—"We know you agree with lower taxes and not bringing in the labour legislation." They honestly and truly believe that the Treasurer believes they are still going to stay. When you look at some of the statistics—I think you have seen the Cross-roads report. A number of businesses were going to leave. They did it graphically.

Hon Mr Laughren: Is this the Canadian Federation of Independent Business?

Mr Carr: Yes, the CFIB. They did it by sector.

The groups I am meeting with, for example some of the German bankers, are saying, "We're telling our people 'Do not invest in Ontario.'" One of the people up in Cambridge said that as well. He said, "We used to get calls from all over the world about investing, and when they call us now, we're saying, 'We can't honestly tell you to come here and invest.'" When I say to them, "Could you come out and talk about that?" they say, "We don't want to; we've got a corporate image." Very few of them will, other than Ken Harrigan, who I think did it reluctantly, because you do pay a political price if you do it.

Hon Mr Laughren: He sounded enthusiastic to me.

Mr Carr: Actually not. I know Ken, and the reason he did that, some people say, is because he only has a year left and he is at the point now where he is doing things. You have to appreciate that people do not do this lightly. You have had discussions.

I have a very big fear, because of some of the concerns out there, that it could get worse. In terms of revenue, if these companies do leave, they are just going to devastate your numbers.

From a political standpoint, the best thing for us to do would be just to let you go ahead. Four years later you self-destruct, because everybody has left and you are terrible, and either we or the Liberals will take over.

I want to convey to you the tremendous concern out there. My big concern is that between now and budget time, four months, General Motors is going to make decisions, the mom-and-pops. Is there anything we can do now? I appreciate all you are doing about getting input. The big concern is that four months is a long time and a lot of people will make some decisions. Is there anything you can do to convey a feeling that you are not going to do anything in terms of increasing corporate taxes to drive them out? Is there anything you can do that I can take back to these people and say, "I had the Treasurer in the finance and economic affairs committee and he said, 'Don't worry, this is what we're going to do'"? Can you give us some sort of feeling to try to help out that way?

Hon Mr Laughren: We would be very foolish to do anything knowingly that would cause any of those kinds of problems. I think there is concern in the province about the government and its agenda, whether it is labour legislation or taxation.

I had breakfast this morning with bankers, believe it or not. They tell me when they talk to investors outside Ontario, whether it is in the United States or Japan or wherever, there are a couple of questions that are of higher priority

than what is happening in Ontario: What is happening to the Canadian dollar and what about the Constitution? I got that when I was in Japan and other parts of Asia in the summer.

Externally, internationally, the business community has worked with social democratic governments in other places, in Germany and so on, and done very well. It does not have to be total confrontation because it is a social democratic government. There is no God-given right for the Tories and Liberals to exchange power in Ontario for ever. I know you think that, Norm.

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Mr Carr: Oh, that it were so.

Hon Mr Laughren: I know you wish it was so.

It seems to me it does not serve anybody well if the business community climbs into its bunker. You put it quite well when you said, "Wait it out four years and that'll be it." It does not serve anybody well if we develop that kind of bunker mentality where the business community says: "They're a bunch of social democrats. We're not going to deal with them." Then government develops a bunker mentality and says: "Why should we talk to the business community? They won't talk to us anyway." That is really self-defeating on both sides. I hope you take back to the business community that we do want to deal with them and talk with them.

We have an enormous number of meetings with the business community, we really do. We do not put out a press release on all of them and we do not invite the media to all of them. That is not the purpose. We have the Ontario Business Advisory Council, which was established by Mr Davis, I believe, continued by Mr Peterson and is continuing now. There are the Premier's councils, there is the Fair Tax Commission and there are always other meetings, such as the breakfast meeting I had this morning. They are going on all the time. We are trying very hard to talk to the business community, because we know that, more than any other party, we have to earn the trust of the business community. We are very much aware of that, believe me. If we were not aware of it when we formed the government, we would be now. We are very concerned about that, because corporate profits are in our interest as well.

Before I finish, I want to get a couple of commitments or a sense from the committee, if not today, to report back. One is the whole question of budget secrecy—I do not know how you want to handle this, Mr Chair, whether you want to think about it or whatever—to what extent you agree with opening it up and what that means, because there are implications to opening it up and making more information available. I would be very interested in knowing if you would be willing to host some of these roundtable discussions on the budget where you get the different sectors together, different players in a sector, and to what extent you would be willing to receive individual briefs the way we have all done in the past.

If you would think about those three things—I do not expect you to give me an answer today—I would very much appreciate it, because it helps us decide in Treasury how we handle it as well, whether we have to do it all or

whether you would be willing to help us. Obviously, I hope very much that you take part in that process.

I thank you very much for your attention and your willingness to change your schedule to meet at 9 o'clock.

The Vice-Chair: Thank you for appearing before the committee with your ideas today. We appreciate that.

ORGANIZATION

The Vice-Chair: At this time, we can do one of two things. We can continue with some discussion on the points the Treasurer has raised. I believe we had a bill referred to this committee out of the House, the one regarding worker ownership issues. We could have a brief discussion about that. Of course, we could take the rest of the morning to think about this and come back and discuss these issues this afternoon.

On the agenda given out for today, it talks about consideration of the draft interim report on the MUSH sector and also meeting during the winter recess. In terms of the meetings during the winter recess, that would be based on what discussions we have, what the Treasurer said and how we want to handle the worker ownership issue. I would invite some comments right now from members as to how they feel we should proceed at this stage.

Mr Wiseman: I think we should proceed. I do not see any point in putting this off until this afternoon. If we have those three things to deal with, maybe we could have some preliminary discussions now. Also, we still have to do the interim report on the MUSH sector and I would very much like to get on with that as well.

Mr Carr: I was interested in the second part in light of what the Treasurer said, what subjects and so on, and some of the weeks to hold hearings. Just from a personal standpoint I would like, as was offered by the Treasurer, to participate in some of these discussions. I do not know from a practical standpoint how it would work in terms of time.

I suspect that during the pre-budget hearings we are going to have a full agenda as we do every year and that fitting in something new, some of these roundtable discussion groups, may be more difficult. But I do believe, because of the economic circumstances out there, that this committee should be willing to assist the Treasurer in that. I suspect from the way he asked it that there are tremendous numbers of requests and we as a committee can assist with that. Regardless of what happens in the end when the budget is done, if the public get a chance to air some of their feelings and if we can help with that, then I would be prepared to do it.

We may need to increase the amount of time we have historically taken. I guess that will be judged on the number of people who would like to appear. I would be willing to participate. I am not a full-time member, but I fully anticipate being subbed in in those hearings. I would be willing to say to this group that we should be prepared to work whatever amount of weeks it takes to get all those people in. How we work that with the Treasurer should be worked out, but I think it can and should be done. I would be willing to do that and I suspect I will represent my party.

The Vice-Chair: I will put one other idea. Last year when we had our pre-budget consultations, the committee's report identified certain groups we had not heard from. The committee may want to focus on some of those groups we did not hear from last year before the committee. Further comments?

Mr Carr: Just on that same point, one of the concerns I have was raised by Mr Phillips and the Treasurer. Historically we have heard from a lot of the same groups, Canadian manufacturers and the various labour groups. I do not know how it could be done, but I would like to have more individuals, the big problem being, how do you get to those people?

In spite of what we think, most people do not know there are pre-budget hearings, even some of the people who work at Stelco, or even Stelco itself. How we get to those people to invite them to participate if they choose to do so, I do not know. The only thing I would like to do is expand it so that we hear from, not necessarily the large groups, but small groups and individuals, even down to the point of as many groups as we can.

I would just leave it up to others to decide how you get to those people. The big problem is that a lot of people would like to attend but they just unfortunately do not know we are out there unless they have a professional lobby group or an association that monitors it.

Mr Phillips: As I said in my remarks to the Treasurer, I am very cynical about the process. Having said that, I could take another run at it, but I am keeping my elbows up because I am not naïve about this thing. I have the suspicion of being manipulated.

The Vice-Chair: Do you have some sense yourself as to how you would like to see the process go along?

1010

Mr Phillips: I think we should take two to three weeks. To me, the most valuable stuff is hearing from the people whose business this is, some of the economists and the people who study the total economics. I found that useful last year. Although in hindsight, if we go back a little over the track record of the economists, I think most of them were mildly more optimistic than reality. I would throw that on the table.

Maybe the subcommittee has to meet. Maybe we should take three weeks between now and when we return. I think we are committed to two days on worker ownership and I would hope we reach out to the Ontario Securities Commission because some of the people have prepared briefs on that, so we can get some input from them. Of the three weeks, I would think we take two of those.

Personally, I do not think there is a need for the committee to travel across the province, unless some others do. That is just based on my last experience. It was sort of like, "See who we can round up to come in." I would look at the first couple of days being used for thoughtful comments and that sort of stuff. I do not personally have a problem with the Treasurer's suggestions of various representatives talking here.

On the secrecy thing, though, I am not sure what it means. I really do not. I would like to know what stuff one

would like. I think we have to take a day or so to talk about that. What stuff that is not public would you want to make public? In theory I am a big believer in full disclosure and everything. I do not know what is secret or what is public. In reality it may be very difficult even to float the idea of something that may or may not appear in the budget from a practical point of view.

So three weeks, with two days on the worker ownership thing to lead off.

The Vice-Chair: At least a day or two of the macro picture?

Mr Phillips: Yes.

Mr Sterling: When we are looking at the budget process, perhaps Anne Anderson, our researcher, would have the opportunity to provide some comparative models, not necessarily within the British parliamentary system, that are more open. If she can find some that are more open within the British parliamentary system, an adaptation of it, fine and dandy.

I have had some experience with the idea of putting a committee under some confidentiality provisions. I understand it is done in Germany for instance. When a committee is provided with confidential information, they are asked to take an oath that they will not divulge that information outside the committee and the committee meets in camera for those kinds of things. I would like to consider that aspect as well.

The Vice-Chair: You said there are specific jurisdictions in Germany. Or is this the German Parliament?

Mr Sterling: I am not certain. It could be a state or it could be the federal Parliament. I am somewhat interested in developing that, not only for this committee but for other committees in terms of what happens.

Regarding worker ownership, I do not think we should spend a great deal of time on it. I would like to have some solid information on what is happening in British Columbia and Saskatchewan on that, particularly with regard to the definitions as to who can participate. I would like to get some information from the policy people at the federal government as to why they made some limitations on their plan for unions. Those are questions that will arise.

What else are we going to be working on? I do not think we should meet with regard to any of the MUSH people after they come out. I agree with the Treasurer on that. I expect him to go and follow the Agenda for People and start on his march towards 60% funding.

Mr Phillips: That is over five years.

Mr Sterling: Yes, over five years. At any rate, on the pre-budget consultation I think what we should aim for is that at least 50% of the presenters would be within the group Mr Phillips outlined, people who are looking at the overall situation in an analytical sense.

The Vice-Chair: Doing projections.

Mr Sterling: Plus people who generally speaking provide wealth to the tax system, as opposed to people who take wealth from the tax system.

The Vice-Chair: So you are talking about anyone who pays taxes? Is that what you are saying?

Mr Sterling: No. I am talking about people who represent the sector that produces wealth. It is so easy to get the committee tied up with people who want more from the taxpayer. I think there should be a balance with the people who are responsible for providing the jobs, who are responsible for creating wealth at the primary source. I think it should be evenly split between those two blocks: the revenue side versus the taking side.

The Vice-Chair: You mentioned primary. One of the groups we did not hear a lot from last year was the resource sector, I believe. Were you looking at some people from there?

Mr Sterling: Yes, I think that is important.

The Vice-Chair: I should inform the committee that Anne is going to be moving on to a different committee and Elaine Campbell, who has been here for the last couple of meetings, will be taking over as the researcher for this committee.

Mr Sterling: In that regard, I would like to thank Anne for all her help over the past year. I am sure other members would too.

Mrs Sullivan: Hear, hear. She has done a good job.

Mr Christopherson: I also add thanks to Anne for her excellent work with this committee over the last year.

Based on Gerry's earlier comments to the Treasurer and his comments about some of the cynicism, I thought it was important that it indeed be the opposition parties that led off with their thoughts on how we ought to approach this. He was trying to minimize and mitigate any feelings that there is any overmanipulation going on above and beyond the usual politics that exist between the three parties. I would like to respond to a couple things that were mentioned. First of all, the time frame, I think, is fine. I do not have a problem with the three weeks and the two days. Staying in Toronto is fine. I do not know that from an economic point of view the kind of travel we did last time was difficult. Part of the benefit of being out there is to get a feel for the regional economies and to hear from local areas. When you are bouncing from hotel to hotel, day to day, I do not know that we really got as much as we could or should have. I will just throw that out. I am not going to push it in any way. It is just a feeling I had coming out of that process.

Still, the idea of getting out into some of the regions and having a chance to talk to some of the folks and get a flavour for the large, different makeup of this province is, I think, important for a committee like ours. If there is any way we can start to bite off that kind of plan so that at the end of this Parliament we have been to every major corner and major regional centre and some of the outlying areas, then I think we would have achieved something.

I would like to follow up the track record of the people who came in and gave us the macro. I have always felt, and support very much both opposition parties' suggestion, that we should deal as much as possible with the macro picture. It is the kind of advice we are to be giving the Treasurer. I think a good way to start is to take a look at what we heard last year versus what the reality was, to give us a sense, not of the winners and losers or who is

right and wrong, but for those of us who are not economists, of how close you can be in some areas and just how far apart you can be.

The confidentiality Norm talked about, I think, has some real promise. Above and beyond any formal contact we have with the Treasurer, I am going to follow up the personal discussions with him, because I think he would be open to that kind of approach if it is possible. I think it just fits his style. Other than that, Mr Chair, I have not heard anything from the other parties that I could not agree with.

1020

Mrs Sullivan: I want to speak to several of the issues the Treasurer raised, the first being budget secrecy. Frankly, in my view, that is a moot point. Budget secrecy effects, frankly, only enter into the discussion after the decisions have been made. Until that point, there is no conflict of interest. There is no opportunity for anybody to benefit until those decisions have been made, whether they are revenue or expenditure decisions that may have an impact on investments or other decisions that are made as a result of budgetary decisions. That is where the budgetary secrecy is important. That is where the issues become vital.

If the Treasurer is asking us if we would be secret about presentations that have been made to us, or if we see that as a necessity, frankly, even in my experience, even in discussions with the Treasurer in pre-budget scenarios, there is nothing secret that is put on the table. Companies, by example, do not come forward on an individual basis and put before the Treasurer details that would have an impact in any way other than that they are put on the table in a normal, public manner; if they are public companies, through their annual reports that are received in the investment community. There is nothing in any budget discussion I have ever seen, having been on the inside and on the outside, that is secret or subject to secrecy during that process.

The Treasurer is certainly going to have to ensure that there is secrecy around his decisions in the period of time between the final decision-making and the printing of the budget and the presentation of the budget. That is the only issue of secrecy that matters and it is the only element of secrecy on which the Treasurer himself is vulnerable. Budget secrecy affects the Treasurer. It is the Treasurer who is vulnerable. It is the Minister of Finance who is vulnerable.

Hosting roundtable discussions, yes, I am sure we could do that. However, we had the health care sector here in the MUSH sector pre-budget hearings. The Ontario Nurses' Association was not present; the Ontario Medical Association was not present. In fact, it was an unreal pre-budget consultation. If you are going to take a sectoral approach, then all the players have to be at the table and involved in the discussion. I did not think that was very useful. The doctors have negotiated a joint management agreement. Many of the issues in relation to that agreement are on the table now and are creating enormous problems for the government. The Treasurer raised some of those issues. They should have been here to participate in

that approach. I do not think we will get full participation, so I suppose that in my view we can go ahead, but unless all the players are at the table and willing to speak frankly about the issues, it is not going to be much help.

On our receiving individual briefs, I think there is no reason the committee should not receive individual briefs. For the most part, if the sectoral approach is being taken, the individual briefs will be addenda, probably for our reading rather than for cross-examination.

The other thing I want to say about this pre-budget process is that I listened in the House and I was very offended—I wish I had had the chance to put this on the table with the Treasurer—when the Treasurer stood up and said this was the most extensive briefing ever given out in the history of budget-making. In fact, it is not. This briefing book is the traditional economic outlook paper. It has a few more pages in it, but it certainly is in no more depth.

In this booklet, there is nothing that the previous Treasurer used to do to indicate what the current projections of revenue base are with no change and what the current projections of expenditure base are with no change. The previous Treasurer did that every year. It was a functioning part and the initial step the committee had in order to conduct hearings. It became an issue when recommendations were being made. What is the base with no changes? Where does the Treasurer have freedom to move? Where does the committee believe the Treasurer has freedom to move? Without those projections, we are just whistling in the wind.

Mr Christopherson: I have a question on the round-table idea. In spite of what Mrs Sullivan has said in some of her remarks, I assume we are still going to give that a further shot.

Mrs Sullivan: Sure.

The Vice-Chair: I think that is on the table for discussion right now.

Mrs Sullivan: But you have to understand that if the players are not here, the process is going to be flawed.

Mr Christopherson: All we can do is provide the most appropriate means for the public to participate, and if certain parts choose not to do so, that is their choice.

Mr Wiseman: Silence means consent in the British system.

Mr Sterling: If we are going out to hear other people's views from across the province or whatever, I would like to do it a little differently this time. Rather than going to a hotel in Timbuctoo and putting an ad in the paper, I would like to go to some major businesses, maybe different types of businesses, and ask the management, and if there are unions or representatives of workers ask them, to come and meet with the committee and tell us what the problems are associated with their businesses, both from a management standpoint and an employee standpoint.

In that way, we are then dealing with the real situation of jobs and what is affecting those particular industries regarding the Ontario government. I think we would get a truer line on what is really bothering people or what is the concern of the people in those particular industries. We could do the steel industry, the car industry, the auto parts

industry, some of the resource industries, as you have mentioned. We might, for instance—I am sure it could be arranged—have an opportunity to view the particular site as well as meet with these people so that we would have a little bit of a feeling for what those industries might be experiencing. I think that would be as beneficial to us as going into a community and inviting people in to talk to us. That would be a different approach.

Mr Carr: Along those same lines, maybe tying up a little bit further how I would see it working, again getting back to the big problem we have, the average person out there does not know it is happening, and timewise you cannot afford to spend it with too many individuals, because there are groups. That is why we work through groups, because presumably those groups funnel into the organizations. But I think there is a feeling out there that different groups are not being heard, not because we do not want to but because we have not reached out.

I will just throw this out for discussion from some of the other members. I will pick somebody in my area, Ford Motor Co as an example, that has been fairly critical of the government. I have not talked with them or any other groups because it was something we just recently talked about. The way I see it working, we could send letters on behalf of the committee to Ford, General Motors, Dofasco, Stelco, whomever, outlining that we would like to come to their facilities and see if they could help organize it with their own groups.

In Oakville, as an example, the way it would work is that they could have some members of their management staff who would be there in the same room outlining their concerns along with the Canadian Auto Workers, or the representatives. Hopefully it could even be done where it would not be just some of the executives or the shop stewards. We could actually have some of the people involved who would sit down and discuss some of the items, with a bit of an agenda laid out in terms of giving them some guidance on some of the things we would like to do. In other words, we would send a letter out and say, "These are some of the topics," because if you do not get a focus, of course, people get all over and talk about things we really cannot do anything about.

I am just wondering whether, on behalf of the committee, we could not send out some letters. I would be prepared to help, as I am sure some of the other members would in their areas or right across the province. We could ask if, for example, Ford would be prepared to do that, the dates we would be looking at, and see what type of feedback we get. We may get a reply saying: "No, we are too busy. We cannot afford the time because we are having enough trouble trying to compete and survive. We do not believe in the process." If a particular company like Ford says, "No, we cannot," then I do not think it can come back and be critical when something comes out in the budget it does not like.

1030

What has happened in the past is that everybody waits until it comes out and then jumps up and down and screams and says it is terrible. If we took, for want of a

better word, a more proactive approach to it, I think it would be very helpful. The way we do it now, of course, is we put ads in the papers and people can call in. But unless you go to them, people are not willing to participate, for a lot of different reasons. I think this would be a way of reaching out to them and showing that we are a little bit different than in the past.

As you know, going out to the various communities is the way everybody has done it. This would be something unique. I think we have to be unique in this day and age because of the perception that politicians at all levels and of all political stripes are not listening to the people. That may be a very effective way to get around that and we might find some very interesting discussions that we could then report back, as part of our discussions, to the Treasurer. If we did the meeting out in Oakville with the Ford Motor Co, again as an example, we could report back to the Treasurer on what is being said right down on the shop floor. This is what that individual who is putting the tires on the car feels about the economic situation in the province and what she or he would like to see.

I suggest we do that and be proactive in writing the letters right now, so that timewise we can see what comes back. With the Christmas spirit, we might get some replies. I think it might be worth while. As part of the process, we can then see that we have 20 replies and then we can approach some of these people and do it. If, for example, we got some in an area, we could maybe bunch them together. Say, for example, that it was the Ford Motor Co, and that somebody surrounding could not do it, Ford, which has a big facility, could then invite some of the other groups and we could expand it. I think it would be worth doing. I do not know what the comments of the other members are, whether they like it or not, but it is something unique that I think we should throw out.

The Vice-Chair: Just on the point of sending out letters, I believe at this stage we still cannot confirm what dates we are going to be sitting as a committee, due to other events going on right now.

Mr Carr: Yes, it is all tied in; I understand it.

Mr Christopherson: I do not think what Mr Carr has suggested is that far away from something that might allow us to achieve a number of things we have talked about. Norm expressed an interest in talking to what he calls the generators of wealth. I mentioned trying to get out and get some kind of regional representation. The Treasurer obviously would like us to try the roundtable idea where we bring in the various pressure players from within a sector so that they can understand our collective problem, the recession and budgetary constraints etc. I think it might be something we could pursue that would allow us to hit a number of our short-, medium- and long-term agendas.

The only concern I have is, as we know from experience, there are an awful lot of independent groups and a lot of organizations that need, want and appreciate the access they have with this committee by virtue of coming in and getting their 10-, 15- or 20-minute slot and being heard. If we do too much of what you are suggesting, it may mean

saying no to some of those groups, and I do not know whether that is healthy or in the public interest. That would be my only concern. Other than that, we may be able to meet a number of things that we would like to do.

The Vice-Chair: Just on that last point, I think it was brought up earlier that we could still accept individual briefs from them, but we would not have them formally presented. They would just mail them in to us to receive.

Mr Phillips: I think they all have various ideas and maybe we can pick a couple of sectors, maybe three sectors—auto, steel and something else—and say, “Let’s take a run at it.”

Interjection: Tourism.

Mr Phillips: That could be lengthy. Just try three days of that. We have two days of the other thing, worker ownership, and we are down to 10 days left.

The Vice-Chair: If we say we have two days on worker ownership, two days on the macro picture, there is one of our sitting weeks, and that would leave what, two other sitting weeks?

Mr Sterling: We can spend those two weeks comparing the recession and how governments are handling it here with the southern United States.

Mr Christopherson: Clarification: When we were talking about three weeks, were the two days for worker ownership included or exclusive of the three weeks?

The Vice-Chair: I was looking at it as being part of the three weeks.

Mr Phillips: I would think so. There are limits to how much time we get.

The Vice-Chair: I do not think we are going to get much more than three weeks, due to the fact that some of the other committees have some heavy schedules.

Mr Carr: I have not spoken to the other members, but the point about some of the other committees spending five weeks—I do not know about the other members, but I see this as fundamental to the problems out there. This is more critical than what is going on in other committees. You have other committees that are going out for five weeks, and yet we limit ourselves to less time when we are in a crisis situation. Quite frankly, I think if you ask people what they would like to talk about, it would be issues that we should be in as finance and economic affairs. I would have no problem with requesting to expand it, because David’s point is very valid. I do not want to exclude anybody else. Getting to a different group does not help if another group then feels isolated or left out.

The only way I see that working, if we get the numbers, is by expanding the time period. I know from a personal standpoint that it is very difficult to do that, because when you are going out—during the summer it was very difficult—you are leaving on Sunday and not getting back till Thursday. But I am prepared, as one individual, to do that and even request more time, to expand the amount of time that is being looked at. I think it is that important and so I would be prepared to request even more time.

Mr Jamison: When you talk about going and seeing the basic resource industries, the major manufacturers in

the province, I simply have to say that going to Dofasco or Stelco is not like going into an office. If you are going to look at the operation, at the technology—

Interjection.

Mr Jamison: No, I worked there for 20 years.

If you are going to look at the technology between plants, the Hilton works, to use Stelco for an example, works with older technology and some problems are inherent to that and some walls are built up that we talk about bringing down. You have Lake Erie works within the same realm that is a much different plant with much more future-looking labour relations. Again, you are not going to accomplish that in one day.

If you are going to look at those things, I can tell you very clearly that if those companies were invited in, they could do a tremendously good job right here in giving you the information that you need on all those areas. Going out and tromping around the steel mill may be a wonderful public relations exercise, but unless you know the industry, unless you know the auto industry, the parts, the motor manufacturing sector of GM, the assembly plants, their subsidiaries, their suppliers, it is a tremendously difficult job to get around and absorb that.

I understand the intent, but our time is limited. If we express the desire to understand the true condition of our basic industry in this province, I think it can be much better accomplished by letting those companies know that we want to hear from them based on that. I really do not think the time spent walking around a Hilton works or a Lake Erie works is going to equate to our sufficiently doing our job that way. I understand, at the same time, that we are saying we want to really get a feel for things. These companies we are talking about can certainly provide that in a very explicit manner by coming in and making even a two-hour presentation to us. By going to Stelco you would have to see both plants. By going to GM or Ford you would have to see their full facilities. Doing that in person is going to be major time-consuming, and I really believe that many of the issues we have to come to understand about our basic industries can be brought forward just as clearly here.

1040

Mr Carr: I did not mean going for tours. I had a chance to go out to a meeting and was up at the Toyota plant in Cambridge. I had the tour of Dofasco and so on. I did not mean we would have a tour. What I am saying is to use their facilities, ie, their boardroom or whatever, and have some of the people off the shop floor who could then come in. If you get into tours it is very fascinating, but it is definitely not worth our time to be taking the tours. We should be doing that individually, myself as critic and you as well. Failing that in terms of time, I think it could be worth while saying to Stelco: "We want to come meet with you in your area. You organize some of the people you would like to have come." If we could contact people like Stelco in a letter and say: "We would like to hear from you. We're going to give you a half-hour slot. Would you please bring some of your workers with you?" they could then sit down as a group, and I think we could accomplish

the same thing. If people like Stelco and so on are prepared to come in and do that, I think it would be worth while being proactive in terms of asking them.

The problem I see is that from a logistical standpoint—I may be wrong; your idea would be great if we could get them coming in here—I see somebody, for example the president of Stelco, saying, "We cannot afford to spend half a day to come to Toronto, even though we're fairly close." Certainly the other areas could not do it. As a sort of compromise, if people think it is unwieldy, I would certainly be prepared to be proactive to write some of these people and offer the time in Toronto if you think that would be more productive.

It certainly was not my intent to get out and do tours and say, "What does this machine do?" and so on. It was just a very focused meeting in their facility, saying, "These are the topics we would like." If we cannot do it logistically, then I think, great, as a compromise we should send proactive letters out saying, "This is what we'd like you to discuss, but could you please bring your supervisor?" Just a couple of people so that the average person out there can then go back and say on the coffee break: "I went in. This is what we talked about. They are listening." As a compromise I would be pleased to look at something like that, Norm. I think that would be great.

The Vice-Chair: Just before we continue, I think we have had a lot of good ideas put on the table and different suggestions as to how we could proceed. It would be my advice that for the time being we should recess and come back at 4 o'clock and everyone should talk it over as individual caucuses and figure out where they want to proceed. I think we have a bit of a consensus on what we are doing in the first week in terms of two days on worker ownership, two days with macro projections, some of the economists, what have you. The question is what we are going to do for the next two weeks. I would suggest we leave it at this, because I think we are starting to get into specific details on specific proposals, and then go from there if there is a consensus on that.

Mr Wiseman: Two quick questions if we do that: The engine of the economy and the sector of the economy that creates jobs is not the multinational sector; it is the small-business sector and small manufacturing. I think it would be absolutely crucial, if we do this, to include them in the process. The second question is, are we recessing now until this afternoon when we have other work to do?

The Vice-Chair: Yes, until 4 o'clock.

Mr Wiseman: Why?

The Vice-Chair: If you look at what is there, particularly the winter recess, which weeks to hold hearings, we cannot decide some of that stuff yet, due to the nature of what is going on in the House.

Mr Wiseman: But we can talk about the consideration of the draft interim report on pre-budget consultations. Are we just going to forget about doing that and the people we have heard, or what?

The Vice-Chair: My sense is that we would still have time to discuss that this afternoon along with the other subjects.

Mr Wiseman: We have an hour and 15 minutes now.

Mr Phillips: You will have to get to your riding.

The Vice-Chair: That is part of the reason. I have to get into the House to speak on the bill.

Interjection.

The Vice-Chair: That is right. That is not the only reason. I just thought we were coming to a bit of a standstill in terms of new ideas.

Mr Wiseman: We can end this and go to the draft report. We have some things that have been put before us in draft by the MUSH sector and if we do not do it today we will not get it to the Treasurer in time for his announcement. As far as I can see, if we do not do that, then what are we doing it for?

The Vice-Chair: My sense was there had been some debate in this committee as to whether we would do an interim report per se or whether we would just include it in the overall report.

Mr Wiseman: I am not without some ideas that I would like to see considered by the committee in terms of this report. If there is some reason we are not going to do it now, then I would like to hear it.

Mr Carr: I agree with Jim that we want to get it in, although we heard the Treasurer say today that it was his intention to already have it done by now. If he had hit his timetable, we would not have a chance to do it. I am wondering about the poor people who came in. If he had hit his date, we would not have been able to do it anyway. Because he has not hit his date, if we can get a report in, I would be prepared to do it.

I have a couple of points—it is not going to take that long—that I would like to see in there, and whether we do it now or later does not matter to me. I am not going to be very long on some of the points I want to see in the report, but I definitely concur that we should report to the Treasurer before the transfer payments go in, because the people will feel, “Why the heck did we come in and make a presentation to this group?” I do not know, timewise, whether we can still do that this afternoon. If we can, great.

The Vice-Chair: Any comments?

Mr Phillips: I will do it either way.

The Vice-Chair: What is the consensus? Should we deal with the interim draft report on pre-budget consultations right now?

Mr B. Ward: I thought you had to go and speak. I can take the chair and you can go up.

The Vice-Chair: It will be a little while yet. We have some time. Someone else can come in the chair if necessary.

Mr Christopherson: I appreciate that my colleague had some ideas and I am sure we would all like to hear them. My only concern—I do not know about the other two parties—is that we have not yet caucused on the document. Our tentative plan was to try to get together at 3:30, and we would meet very briefly then come back here at 4 o'clock. You would at least have some sense of where we were and we would have some sense of where we were.

Mr Phillips: Why do we not proceed right away?

Mr Carr: Now that you have told us that—

Mr Christopherson: That is fine. It was not contrary to your initial reaction. It was more that it would give us a chance to move more quickly, because what I am worried about is that we start down the road and all of a sudden we throw the brakes on and say: “Wait a minute. We are going to have to get back in on that.” We either have to break now or break later; that is the only thing. But if there is a clear feeling that we ought to march ahead now, that is not a problem with us.

Mr Carr: Let's wait then, and when we come in we will have it clear and concise, because my fear is that we might spend an hour talking, whereas we could, when we get in here, have a clear consensus. We could do it individually. So let's wait till this afternoon, come back with clear, concise, short answers and away we go.

Mr Phillips: Just to show where we are coming from, if the transfer payments do not meet the expectations of the transfer payment agencies, I think we will be saying the government has a responsibility to spell out its responsibility for it and, where it can, to be pulling back on the mandated programs for the hospitals, municipalities and school boards. Our overall comment will be about downloading, and if that happens, that the government assume the responsibility. I want to tell you that so you will know.

Mr Christopherson: Gerry, I appreciate that, and I think we all, especially those of us who are new, have been appreciative of and most thankful for the professional, fair and upfront way everybody has dealt with reports.

Gary, so far, where we can find common ground, we do, and then we try to make accommodations, but there is an understanding that at the end of the day we will use our majority to put through the majority report, and that is fine. We recognize the opposition parties will put in their minority report. They have, and that is fine too. It works well for us and it is a good group that way. What you hear Gerry saying is indicative of the fact that we do not agree on an awful lot quite often, but we do agree to respect each other's rights to take our positions and to move things along quickly and not get bogged down in a lot of cheap politics.

Mr Wiseman: With all due respect, it is more than just saying whether or not the MUSH sector is going to get what it asks for, because quite clearly there are some problems in the way the system works in terms of allocation of funds from the province to the municipalities, as to what the municipalities do with it.

Mr Phillips: I just want to tip my hand on what we are going to say this afternoon.

Mr Wiseman: Having not caucused on this, this is my own sense of what I have accumulated for the last year or so, and I think there are some serious structural deficiencies in the way the municipalities, the universities, the schools and the hospitals get their funds and then what they do with them. There is no accountability in terms of

whether or not they are meeting the program needs within the sectors as they have been outlined by the province.

For me the question is far bigger and the recommendations I would like to have discussed go beyond talking about the simple transfer of money. I would like to talk about the whole notion of whether or not it should be an open-ended grant system where the municipalities come in and say, "We want you to give us this amount of money and we will then do with it what we want." I tell you, I have some very serious problems with that in my own municipality, which is building an administration building that is going to cost millions of dollars more than it needs to because of some political finagling within the municipality.

Mr Phillips: Why not make it part of our report, then?

The Vice-Chair: Mr Wiseman, I do not think anyone wanted to disagree with that coming forward as one of the issues that should come forward.

Mr Christopherson: We will talk about it. You struck a responsive chord with me. I am beginning to see a consensus.

The Vice-Chair: Do we have a consensus then that we will come back at 4 o'clock and spend some time on the MUSH report and try to figure out how we are going to do our three weeks of public hearings? Then we will be adjourned until 4 o'clock.

The committee recessed at 1052.

AFTERNOON SITTING

The committee resumed at 1637.

The Vice-Chair: I call this meeting to order. We are trying to get hold of a Liberal representative to have here very shortly. We are holding over from this morning. We are going to have some discussions around the interim report and pre-budget consultations and then have some further discussions on what we are going to do around the winter hearings.

I believe we had come more or less to a consensus on what we do in the first week. There was a question of what we should do for the other two weeks, keeping in mind too that since that time we have also had a further piece of legislation referred to this committee, Mr Morin's private member's bill regarding charging for cashing of government cheques. Let's deal first with the issue of consideration of the draft interim report on pre-budget consultations.

Mr Christopherson: After the House routine business was completed, we spent as much time as we could reviewing and coming up with the position we wanted to present. Unfortunately, all the private member's bills that were presented for second and third reading held us in the House much longer than we were anticipating this morning, and so we really just barely had a chance to scratch the surface of the issue we want to discuss.

We want to raise the possibility, with our colleagues across the way, of doing what we have done in these kinds of crunch situations in the past, that indeed each party would submit its own report. If there is a time we could meet and look at it, discuss it and debate parts of it—although that has not always been necessary—the three reports would form the full report that would go to the Treasurer. We acknowledge that the majority of the report would be ours, because of the majority of members. Then the other two reports would be added, as we have done in the past.

Basically what I am saying is that we have not had a chance to do what we had hoped to do. What we are asking is that maybe the three parties go back, draft up their positions and submit those to the clerk, that the three constitute our total report and that it be forwarded to the Treasurer in a timely fashion.

Mr Carr: The only thing I would add, from the standpoint of our Treasurer, is that I did not get a sense today of the date he was looking at in the new year. In order to get it in his hands and read it, what were you suggesting time-wise, David?

Mr Christopherson: I have been very reluctant, for obvious reasons, as we have approached this, to give actual dates. As you can see in Floyd's comments this morning, it is still a moving target. I would just say, as I have said in the past, that we should do it as quickly and as early as possible to have the maximum impact. How soon we can realistically produce three reports and get them in the hands of the clerk and how quickly he can turn them around into something that can be handed to our Treasurer

ought to be our target. Maybe Todd could give us a sense of what that reasonably might be.

Clerk of the Committee: With the consent of the committee, I could provide the Treasurer with an advance copy of the report in English only, which would allow him to be aware of what the committee recommendations are, and subsequent to that have the report translated, printed and bound in the normal way for tabling in the Legislature later on.

Mr Christopherson: How long do you say it would take, Todd?

Clerk of the Committee: On a same-day basis, really. On the day I get the three components I could turn that around and provide it to the Treasurer and within a couple weeks have it available to be released publicly.

Mr Carr: What about doing some of the reports? Obviously we are under the gun, timewise, to get a nice report that gets to him in time. I am thinking now of some of the staff with Christmas; even though we are working, they might not be. I am trying to get a sense of whether I go back to some of the people who will be helping with this and say, "Get it ready. Sorry, come in the day after Christmas," or whatever, or whether it would be better not to have as detailed a report but just to have something with a few recommendations that we could kick around now, that would not be as detailed as we would like, that could get out to him in time to be practical, with a provision to the Treasurer saying we would have liked a little more time to put a more detailed report together.

I am saying what is the sense? Do we have something that is good that is not timely and is therefore ineffective, or do we do something that is maybe a little bit quicker but where the Treasurer at least will have a bit of the sense of some of the direction? I do not know. I need discussion on that.

Mr Christopherson: Yes, we could. I do not think we have any objection. I suspect, given past experience and the mood of the House and everything else that is happening and how exhausted everyone is, that there probably will not be an awful lot of agreement. I suspect that at the end of the day two of the three reports might be somewhat similar and that the third would be very different. I am referring to two opposite—

Mr Carr: Mine.

Mr Christopherson: Yes. I do not want to deny the member the opportunity to have a debate and have it recorded on Hansard, if he feels that is important. That is not what we want to do. In all fairness to him, I would just ask how much success he thinks we might be able to have this afternoon on these issues. If you take a look around, without naming who is here and who is not for the record, it is clear that we would not exactly have full debate.

Mr Carr: That is true. I will say just very briefly for the record that one of the things Norm and I have talked about is the amounts. As you know, for the various people

who were through, a very high percentage of their costs are salaries.

Some of them are contracts renegotiated with maybe 5%. The only provision I would like to see, and Norman concurs with this as well, is if the Treasurer decides to give less than that. I will use the example of the school boards that have already got 5%. If he chooses to give less than 5%, which will be almost a certainty, I would like to see implemented what the public school boards wanted, which was corresponding legislation saying for example that if he gives them less than the 5%, then the provincial government should legislate that they will not get the increases they may have already got.

That is the only point that I think would probably be different. We would like to get that done up in a report. That is the only thing that may be different from what you would want that is out of the ordinary.

The Vice-Chair: Can we put it in this focus, some suggestions on a time line as to when a date would be? If you are going to submit individual reports, I imagine all three parties will have some staff support in there. Not knowing how staff work over the Christmas holiday period timewise, is some time in January, the first week back, an appropriate time, or something like that? Does that focus the discussion?

Mr Christopherson: Given the importance of this, the members on this side, non-cabinet members, have as much desire as opposition members to actually get a document in the hands of the Treasurer that he can consider prior to making some decisions. In that vein, I have had a chat with my executive assistant, Ari Rozin, and if need be we are prepared to work around the clock to get something in the hands of the clerk by the first of next week.

I have heard from Todd. They are going to be here anyway. If we can give them a final product from the three parties, we can get it together and get it over to Floyd.

As Floyd's PA, I am prepared to ensure that the document is available by Monday, faxing drafts to my colleagues across the province. I think we could do that if the opposition is interested and if it has the staff support. If they are not, then obviously it does not make sense for me to work my staff that hard towards Christmas, but if they can meet that kind of time frame and would like to, I and my colleagues are prepared to commit that we will meet it also.

Mr B. Ward: Can you get yours in early next week?

Mr Carr: Yes, ours is going to be fairly concise and to the point. It is just a matter of taking those ideas and doing them up. I do not see a great deal of integrated work for somebody. That would be fine.

Mr Christopherson: We will just have to assume that our Liberal colleagues would also have the same desire and ability to do so.

The Vice-Chair: I think we just saw on the screen Mrs Sullivan leaving the House, so hopefully she will be down shortly to give some comment.

Mr Christopherson: Do I have to repeat everything? You would not submit yourselves to all that, would you?

The Vice-Chair: We will do a very quick précis of what you have said. That is no problem whatsoever. It looks like we will just about have a consensus on that when the Liberal representative shows up. If not, we will have to go by that.

You said possibly Monday. Do you want to set a time? Is it Monday at noon you want to get it in?

Mr Christopherson: We are prepared to meet whatever time frame the opposition feels it can meet.

Mr Carr: Tuesday makes it the 24th. I am just thinking in terms of when it gets over to the Treasurer. I assume his officials are going to be working right up to the last minute. Let's say Tuesday.

The Vice-Chair: Let's be clear, though. The idea actually is to get it in by the end of Monday so that something can be done Tuesday with it to get it over to the Treasurer's office. Is that the intent?

Mr Christopherson: It sounds good.

The Vice-Chair: Okay, Tuesday noon at the absolute latest and hopefully sooner. Probably your staff will want to get it in too.

Moving on to the next issue, or were there more issues related to that? How does this integrate with the draft report, what is there, in terms of the language?

Mr Christopherson: The only thing we have is the list of recommendations.

The Vice-Chair: Oh, no, we have a more updated document.

Mr Christopherson: What I would suggest is that all three parties consider the documentation that is currently available, include what they are comfortable with and exclude the rest. Again, ours will form the majority report and the two opposition parties can add theirs as minority reports.

What we will do is make sure, Anne, that your people are apprised of what we are looking at with the majority report. Are your people available on Monday? My assistant Mr Rozin will be in touch with you to complete that.

Interjection.

Mr Christopherson: I am willing to take the risk. It probably will not, Gary, but if you are, when we get back I will be glad to speak into the record that you did.

1650

Mr Wiseman: I have a couple of recommendations I would like to see included in the report that have not been made by the groups that came before us but none the less come from what they were saying to the committee. How would I make sure those are included?

The Vice-Chair: If we are suggesting we are going to have individual caucus reports, then I would think you would want to go through your caucus to get those ideas put down on paper and involved in the process that way. That would seem like the most appropriate way to me, given what we have said we are going to do.

Mr Wiseman: All right.

The Vice-Chair: Just as you are coming in, Mrs Sullivan, regarding the interim report, we have had some

discussion on that. I think we have consensus on this with the other two parties here. What we have suggested is that each caucus would do up a report on it. Try to have it in by Tuesday morning to the clerk. The clerk will compile them and make sure a copy is sent over to the Treasurer. Then it will formally go through the process of translation, being bound and submitted to the House.

Mrs Sullivan: It sounds fine with me.

The Vice-Chair: You do not expect any problems in terms of whether staff is helping out? I do not know how your staff are operating over the holidays or whatever up until Christmas.

Mrs Sullivan: I think we can manage. Our remarks will be short.

The Vice-Chair: We got that issue out of the way then.

AGENDA DURING WINTER RECESS

The Vice-Chair: Moving on to trying to plan what we are doing during the recess period of the House, the winter hearings, as I said earlier, I think we had basically come to the conclusion that in the first week we would spend two days dealing with worker ownership. I guess we will need to appoint some group; maybe a subcommittee group will have to decide who should be invited to comment on that. Then we are going to look at the macroeconomic picture, a couple of days there, hearing from some of the people and organizations that provide some analyses and projections and where some of the key indicating figures are going to be. That was week 1.

We were trying to decide, if we were sitting three weeks, how we were going to approach the following two weeks. We had many suggestions put on the floor. The other thing that fits into that is Mr Morin's bill that was referred to this committee. We have to figure out how we are going to deal with that one.

I would certainly be willing to open up the floor now, hoping that people have had some time to sit back and reflect between this morning and now as to how they think the committee should proceed.

Mr Carr: Norm and I had a quick chat on the way out, along the same lines of some of the concerns we voiced about going out. I was trying to explain a little bit about how it would work. Failing that, because I did not think there was much of a consensus for that, the one thing I would suggest we do is maybe through the clerk make it known to some companies that the hearings are coming up. Possibly he could write and advise of the hearings when we do in fact get a date.

I still stand by what I said this morning in hopes that we could expand the amount of time. As Jim rightly pointed out, we will spend five weeks on some of the garbage hearings, and I think that is a very important issue of this day. In terms of the timing, I am very flexible. In terms of the amount of days, I think it should be enough that everybody will be heard and we should encourage a lot of people who have not been heard from in the past.

In terms of what the Treasurer said this morning about some of the roundtable discussions, I would love to see us

be able to participate in that process as well. My basic feeling is that whatever amount of time we need, we are prepared to do.

Mr Christopherson: Maybe we could ensure that we are reaffirming what the parameters will be and then just mandate the subcommittee to fill in from there, the problem being that we are not going to be back together until it is time to actually start working. Unless we are going to make those decisions right now or plan and ensure that we meet again next Monday, we are probably going to have to mandate the subcommittee to take care of those details for us.

Mrs Sullivan: I think there are several issues that have to be dealt with by the subcommittee. One is of course the dates, which have to fit in with the sitting of other committees. I gather that the dates for other committees, while they have been discussed in House leaders' meetings, have not yet been finalized. There is an overlap of members on the various committees and that is of some importance.

The other thing is that while the government is excited and interested in this new process of consulting on the budget, it has yet to be determined if in fact the groups who are interested in doing pre-budget consultation are interested in participating in a roundtable discussion. These are trying and difficult economic times, and to sit in a meeting simply to chat and have a cross-fire or debate of views is something companies, associations and others who may otherwise want to present their recommendations in relationship to the budget may simply feel is not a useful way to spend their time.

I do not know if we have had feedback from some of the significant sectors on their views of this process, the resources sector, for example, or the automobile manufacturers, who are clearly drivers of economic affairs in the province. We know we had less than great success in gathering all the players to the table when we were dealing with the transfer agencies. As a consequence, I think the subcommittee must have the opportunity to have some time to review what kind of response and what kind of indication there is that people really want to participate in this process, if they really feel there is any validity to it or it is a waste of time.

I think we cannot discuss any further the matters relating to the time or the nature of the hearings until we have other information and it is probably not very useful for this committee to be providing more direction to the subcommittee. I think the subcommittee is going to have to make a lot of the decisions.

The Vice-Chair: Can I just ask, in terms of those issues—times, actual format, who comes forward—is there any way the topics of focus of these hearings could be established? I think if that were established, it would make it a lot easier. In other words, do you want all the groups outside the MUSH sector, which came in last year, to come in? Do you want the target groups or specific areas that did not appear last year, or do you want to take some of the ones from last year you feel are most important and say: "We are going to focus on three or four topics here.

Let's have the people from those areas come in in some type of format"? I think if that type of question could be answered in some form, that would probably make the subcommittee's job a lot easier, to figure out specific format and times and dates and who the presenters will be.

1700

Mr Carr: Just on that, my feeling would be certainly, at bare minimum, anyone from last year who appeared in these hearings. I did not sit on the hearings but, as Todd will know, got all the presentations and came in on some of them. I think certainly at a bare minimum those people.

I am fairly open to how we reach out to some of the other people, ie, what we talked about this morning. I would look for some guidance, but certainly the idea and the premise of sending something to a Stelco, for example, to invite it to come in—notwithstanding the fact that many people are too busy, notwithstanding the fact that a lot of them say, "We come in and do a presentation and the government will do whatever it wants," I still think there is a chance to impress upon the Treasurer before he makes these critical decisions what needs to be done.

The only thing I would suggest is that we keep some of the groups that appeared last year, and have historically, and try to expand that. The only thing we may have to look for, certainly from the clerk, is the timing of that. If we are going to stay to the weeks and everybody appeared who appeared last year, as an example, we may not be able to ask anybody else just because of the time frame involved. I still think what we should then do is expand the number of weeks to accommodate those people. But if we cannot, then certainly the bare minimum is the people who appeared last year.

The Vice-Chair: Okay. Further comment on those specific issues.

Mr Christopherson: Mr Carr suggested earlier today the idea of some form of clustering, and I think we ought to be following through with clustering of some sort in order to get the roundtable going. There may be disagreements on how effective it will be. We will not know until we actually try it. I think it is worth saying that, up until now, I am only aware of one major group which said, "No, we don't want to come," and I think that was the same group which said no last year under the regular process, but I could be wrong on that.

What we are trying to do is sincerely find a way of allowing the groups to participate in the decision-making by hearing the same sorts of things we are hearing. Coming in in isolation and saying, "Here's what we need in these times," is not as effective as it might be if we tried something else, and that really is the whole approach. I think Mr Carr is buying into that experiment, if you will, to at least give it a shot.

I think we are going to have to call on the subcommittee to take a look at just making the commonsense decisions. Obviously, anybody who wanted to get to us last year and could not should be given a priority. Out of two years, everybody should get a shot if it is at all possible.

Mr Carr: Were some left off last year?

Mr Christopherson: I think there were some.

The Vice-Chair: Sorry. I do not think it was a question that people were left off who we were able to accommodate. There were certain sectors that were obviously—

Mr Christopherson: That we did not focus on.

The Vice-Chair: Yes, they were obviously not evident in appearing before us.

Mr Christopherson: Everyone got to submit, but not everyone got to come in and make a personal approach.

We did not come back to the idea of whether we wanted to actually try and get out to at least maybe even one region per consultation, or one or two regions. I realize you would like some assistance from us, Mr Chair, but I think a committee needs to sit down and look at the track record from the last time and take a look at what Todd can produce in terms of who did come in and who did not and what sectors maybe did not get as much attention. I am prepared to stand by what your collective wisdom would bring back to us.

The Vice-Chair: I guess as long as people understand that there may be some—as a result of putting that to a subcommittee without any degree of parameters, I think we all have to realize there would be some limitations on whom we are going to be able to go after, and it will probably have to be done a lot more with direct invitation than necessarily public advertising for those hearings, other than maybe public advertising saying, "You can submit a brief so it will be considered."

Mrs Sullivan: I am quite concerned that even before the subcommittee meets there has not been adequate background work done to ensure that the subcommittee can indeed determine where the invitations ought to go and how they would be seen and could be seen to be valid. For example, if we are looking at the automobile sector—and we have talked about that as being a driving force in the Ontario economy—there are a number of players who could participate in a roundtable discussion in relation to economic matters: the unions, the automobile parts manufacturers, the automobile manufacturers' associations, various economists who are part of the consulting organizations, the spinoff in terms of the retail sector that distributes the parts and so on, environmental organizations that are involved in pushing for gas tax changes for environmental concerns, and which may well ultimately have a direct effect on automobile sales and the rate of recovery in that sector.

If that is the kind of roundtable participation that the Treasurer anticipates this committee would be involved in, we would, first of all, have to hire a hall. Second, the determination of who would participate and what issues are likely to be on the table is going to have a significant weighting on the success of the outcome of the committee hearings. Frankly, in my view, we are not at that stage. That work has not been done. The analysis has not been made. We could do the same thing about the resources industries. We could do the same thing about the health care industries.

I will suggest to you that one of the reasons the MUSH hearings did not work is that in health care we know who was here and we know what sectors were missing. The

pharmaceutical manufacturers were not here. The generic drug manufacturers were not here. Long-term care people were not here. The Ontario Medical Association was not here. The nurses' association was not here. Yes, the Registered Nurses' Association of Ontario was here, but the union was not. The medical laboratories were not here. Many of those sectors have had the focus of their activities changed significantly by decisions of the government, some of them budgetary, over the past year. Frankly, in hearing from three or four participants in that sector, what we heard was not a picture of the issues affecting that sector.

I do not understand. If the subcommittee feels they can do it, I suggest to you that our research assistants and our clerk are going to have to be working all weekend and over the next week and a half, and if the committee is going to meet on Monday, they are not going to have the material with which to make recommendations in relation to sitting time and so on. I think the committee is behind the eight ball on this.

The Vice-Chair: Just as one comment, I do not think anyone thought that when we were to deal with the hospital aspect of health care and we had them in—if there are aspects of the budget related to health care outside of hospitals specifically that the committee wants to focus on, that is certainly still well within its mandate, I would think, but the focus was to be on the hospitals.

Mrs Sullivan: That is not the point I am making.

The Vice-Chair: Okay. Mr Carr.

Mr Carr: I think the process we had last year where the people come in is still very valid. The way I was reading it with the Treasurer—correct me if I did not hear right—was that the Treasurer was meeting individually with people as well. The way I see it working is that we still have the hearings the way they have been done in the past. But what I saw was the Treasurer saying he had the individual meetings, I presume at the Treasury office, and that he is planning to do that, only this year, instead of having them come in one at a time, he was opening up the process, as opposed to the past where they met with the Treasurer and the officials and there was not anybody, for example, from these hearings coming in.

I think Barbara misunderstood. I think she got the impression that we were going to change the hearings and make them into roundtable discussions. That is not what I was saying. I was saying that in addition to that, now members of this committee would be able to participate. What I was hoping to say to the Treasurer, and I think I made that clear, is that if he has the dates when people are coming in, then people could participate. Barbara might not want to go on one when the auto sector comes in. The Treasurer is meeting with these people anyway. I think just

quickly, before Barbara leaves, she misunderstood and thought we were going to have roundtable discussions instead of the hearings. That is not what I meant. I think what we have done traditionally is very important. All I am saying is that we can expand it beyond that.

I am sorry Barbara whipped out there, but if anybody else thought that, that is not what I was saying, that we were going to change the hearings process into roundtable discussions and only do that. It is the same way it has been. In addition, if that means roundtable, where not all of us appear, I would just like to have the opportunity to go and sit in.

I might add that I spoke with somebody at lunch today who is an accountant and so of course has a lot of customers. We were talking about the economy and how bad it was and so on, and I said to him, "If in fact there was a process where you could have some of your clients come in, like George's Taco Stand, and speak to the Treasurer about what their concerns are, do you think your clients would want it?" He said, "If you let me know the date you're looking at, we would contact them, and I really believe they would like to speak to the Treasurer and/or his officials and/or somebody on these committees." That is all I was saying. Hopefully that clarifies it a little, but I think, by the nods, that is what everybody else understood.

The Vice-Chair: Okay. Mr Christopherson.

Mr Christopherson: I think Mr Carr is reflecting quite accurately the approach we were suggesting, and I suspect that Mrs Sullivan, by and large, and her colleague Mr Phillips are also in agreement with that. I will move that the subcommittee be mandated to set the details of our three weeks, taking into account—sorry?

The Vice-Chair: Of the three weeks or the final—

Mr Christopherson: Of the total amount that is finally allocated by the House leaders, taking into account the number of issues that have been raised here and, I think, the general level of consensus as to how we approach the spring sitting.

Motion agreed to.

The Vice-Chair: Seeing that, if that is the case I do not know if we have anything else to discuss on the agenda at this time. We will go forward from there and see what we can come up with based on the times.

Mr Carr: One last thing. We hopefully will see each other next week, but if I do not see you individually, all the best for Christmas to you and your families.

The Vice-Chair: Actually, Mr Carr, I think in many respects we hope we do not see you next week so we can enjoy the holidays a little more. Meeting adjourned.

The committee adjourned at 1712.

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Le mercredi 29 janvier 1992

Standing committee on
finance and economic affairs

Pre-budget consultations

Comité permanent des finances
et des affaires économiques

Consultations prébudgétaires



Chair: Ron Hansen
Clerk: Todd Decker

Président : Ron Hansen
Greffier : Todd Decker

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LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Wednesday 29 January 1992

The committee met at 1005 in room 228.

ORGANIZATION

The Vice-Chair: I call to order the standing committee on finance and economic affairs. We have representation from all three parties so we will try to get started. We have enough for an overall quorum right now. Just before we begin we need to go through the business of electing a Chair for this committee. I would like to do that right now and open the floor for nominations for the position of Chair. Mr White.

Mr Phillips: I nominate Ron.

Mr White: I was going to do the same.

The Vice-Chair: Mr Phillips, you are nominating Mr Hansen. Okay. Do we have any other nominees?

Mr Johnson: I nominate Kimble Sutherland.

The Vice-Chair: Okay. Any other nominees? Mr Hansen, will you stand?

Mr Hansen: Yes, I will stand.

The Vice-Chair: Good. I will not stand. All right, I declare Mr Hansen the Chair, if he wants to come.

The Chair: I would like to thank my nominator and the committee for total confidence in my election to the Chair. Thank you.

PRE-BUDGET CONSULTATIONS

TORONTO DOMINION BANK

The Chair: We will start with our pre-budget consultation this morning. I have already met Mr Peters down there. Would you please come forward with your colleague and represent the Toronto Dominion Bank. I hope we have good news. You have one hour for your presentation. If you could leave some time at the end of your presentation for the committee, the three parties will ask questions on your brief. You may proceed.

Dr Peters: Thank you very much to all of you for hearing our views on the Ontario economy. My colleague Dr Ruth Getter is with me. Her area of expertise is the provincial economy and she will make our presentation. First of all, I will tell you that we have handed out a brief paper on the Ontario economy together with our outlook for the Canadian economy. We will leave those with you for your information and I call on my colleague Dr Getter.

Dr Getter: Good morning, everybody. You have been given a package of four items. Let me just go through it very quickly. The small booklet is our macro outlook for the Canadian economy, our January forecast. There is something called Report on Ontario, which basically summarizes our views on the Ontario economy and its prospects, and a one-pager called Provincial Update, which summarizes our provincial forecasts for all the provinces.

On the back you have a summary table so you can compare Ontario to other provinces. The last piece is a publication called The Economy, which was written by my colleague Teresa Chandler, on competitiveness. I will be referring to that too. I think it is a very useful document.

What I would like to do today is briefly describe the current situation in Ontario, the factors that have contributed to the current situation and what the prospects for the future are. Ontario is the only economy in the nation where activity has contracted for two years in a row. Our estimate is that output declined by 0.8% in 1991 and by a further 2.3% in 1992.

Last year I sat in this chair at about the same time and my forecast then was that Ontario's activity would decline by 2.1%. So I do not feel too badly about the forecast in the sense that it was accurate, although I feel quite badly that it was as bad as it was. I looked back at what I presented here last year and I said, "Well, that's not too bad in terms of forecasting accuracy." I hope my forecast today for the next couple of years will be equally accurate. I am going to give you all the bad news first and then move on, hopefully, to some good news. I am going to summarize where we are.

Our employment rate is up from 5.1% in 1989 to an average of 9.6% in 1991. In the goods-producing sector, which includes manufacturing, construction, utilities and so on, employment is down by 8%, which is really a very sharp decline, but service industries did a bit better where employment is down by only 1.2%. The manufacturing and construction sectors were the worst hit of all sectors in the economy and employment in those sectors was down by 8% and 14% respectively.

Our housing market: The bad news continues to roll in, although there is some glimmer of hope on the horizon. Our housing starts in 1991 fell to a nine-year low, 52,794 units. That is about half of what was built in 1987. The resale market is better, however. The news there is better. Sales rose about 25% in 1991 as house prices fell and mortgage rates fell as well.

Moving from our housing sector to our manufacturing sector, we know very well that it has been devastated which is, I think, the operative word. It accounts for about 50% of national production. In 1990 shipments fell by 5.2% and in 1991 by a further 6.2%. That is the lowest level since 1984. The worst-hit industries were textiles, non-electrical machinery, non-metallic minerals, primary and fabricated metals and wood and furniture products. There were more modest losses in food processing, clothing, rubber, chemicals, electrical and electronic products and transportation equipment.

Other economic indicators are equally bad. Retail sales are down for the second year in a row, business bankruptcies are up by 30% and exports are down by about 5%. So

now we should probably all go and slit our wrists. I do not know, but the overall picture I just presented is a very depressing one.

Let me move on a little bit and let's try to understand what is really going on here. The major question I get asked, and I know I ask it all the time, is whether this is a temporary downturn or a major structural change. That is the crucial question everyone is asking. If it is a temporary downturn, we should just hold on and it will pass. If it is a major structural change, that means something very different.

In a typical economist's answer, the current state is a combination of both a cyclical phenomenon and some structural adjustments going on at the same time and it is very difficult to isolate which is operating at any time.

Let me go back and see if I can isolate some of the factors that are operating. Even in the absence of any structural change in the economy, we would have had a downturn in the economy. The pace of economic activity in the late 1980s was absolutely non-sustainable. In the good old days, the go-go days where everything seemed possible, we never thought: How is it possible to continue going on like this for ever? Now we are asking: Can we be in a recession for ever? We never asked that in the good old days.

At that time house prices were rising to unprecedented levels. Affordability was out of the question for most people. There was enormous overbuilding in both residential and non-residential sectors and a huge oversupply of commercial space and condominiums came on the market and it is going to take some years to absorb that. There was excessive borrowing by businesses, especially in the real estate sector, and overexpansion. Expectations were simply out of touch with reality by the late 1980s and we were due for a crash.

At the same time, the Bank of Canada was fighting inflation. Now we have to remember that this monster inflation they were fighting was averaging about 4% to 5%, which is not exactly terrible in my estimation and, I believe, Dr Peters's estimation. But in its fight against inflation it caused interest rates to rise very rapidly in 1989 and early 1990. It choked off economic activity and essentially helped push the economy into a recession in the first quarter of 1991.

At the same time, and partly as a function of high interest rates, the Canadian dollar rose steadily, which hurt exports and company profits. To add to the bad news, in the midst of a recession in January 1991 the government imposed the GST. This had an absolutely traumatic effect on consumers. They were already pretty nervous and when the GST came on they just stopped spending. They were just traumatized. I do not know about you, but I am still traumatized when I have to shell out 15% on everything I buy. I think the adjustment to the GST is taking a lot longer than anyone anticipated.

In case we did not have enough problems, at the same time tariffs continued to fall as part of the free trade agreement. Domestic producers lost their protection against US competition and something happened that no one really anticipated to any degree as far as I can see: consumers ended up in a situation where they had a very high dollar,

they were faced with the GST at home, there were now lower tariffs or customs duties for stuff brought in from across the States, and it simply made shopping in the United States irresistible. Any rational person faced with those conditions would say, "Why should I shop here?" Cross-border shopping became a major phenomenon and I think in the last month there was a record number of trips. This is still going on.

We already had a very weak economy and cross-border shopping siphoned off income from provincial retailers, which made things even worse. It also did something else: consumers became very educated by this process. When we had a very protected market, consumers did not really know they could get good quality for lower prices and a different kind of service and retailing. They became educated. They went across the border and saw things they had no access to before. They have become especially price conscious. They are not willing to shell out the kind of money they used to shell out because they know better. They know they can get a better deal elsewhere and they want the same kind of deal here. So there has been an educational experience going on in the past year or so.

In addition to the cyclical downturn we were going to have anyway and the unique factors such as the GST and the free trade agreement, Ontario was also undergoing some structural change. That is a really nice buzzword and everybody talks about it. The catchword of the 1990s seems to be "competitiveness." It is something we are lacking apparently. I have found a real lack of understanding about what competitiveness means, so I would like to spend just a little bit of time talking about it: what it means for us and what this structural change is we are talking about.

Let me first define what competitiveness is. Competitiveness is the ability to produce and sell goods which are either cheaper than competitors' products or, because of certain characteristics such as higher quality or improved technology, superior to competitors' products. I have talked to a lot of people and competitiveness to them means we have to become cheap producers of cheap goods. We have to be able to compete with cheap Korean-made goods or things produced in Third World countries. That is not the case. We need to become competitive in the sense that we need to be able to produce any kind of goods, be they high-value-added goods or low-end or resource-based goods, better than someone else, and that someone else is usually the United States. This whole discussion of competitiveness is covered at great length in *The Economy*. If you really want to get into it, I urge you to read it because it is a very simple explanation.

We measure competitiveness by something called unit labour cost. I never understood that terribly well even with all my background but I think I now have a grip on it. The key to remember about unit labour cost is that three things go into it: productivity of labour, how productive, how much output per employee, per hour or per worker you have; wage rates, how much you pay your workers; and the foreign exchange, the value of the Canadian dollar, because we are comparing productivity between ourselves and the United States so we need to measure it in common

currency, which is US dollars. Those three things make up what we call unit labour cost.

If our unit labour costs are rising faster than unit labour costs in the United States, that means we are losing our competitive position. That is what we need to remember. In fact, that is what has been happening. The reason our unit labour costs have been rising is threefold. First, our productivity, our output per worker, has not been growing as fast. Second, our wage rates have been rising faster than our US counterparts'. Third, our Canadian dollar has been rising. Our competitiveness has deteriorated because of those three reasons. It is not simply because the dollar is higher or our workers have become less productive or they get paid too much. It is a combination of all those three things. In order to improve our competitive position, we have to improve in any one of those three areas. We could have the dollar fall, we could have wage rates fall or we can improve our productivity.

Dropping the dollar is a short-term solution. In fact, the reason we were competitive earlier in the 1980s was because our dollar was so low. It really camouflaged what was happening underneath, which is that we were losing in terms of productivity. In those years when the dollar was low, we really indulged in being not very productive, and now we are paying the price for it. Dropping the dollar would help, but it is a short-term solution.

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Dropping wage rates is not something anyone would recommend. The only thing we can do in terms of a long-run improvement of competitiveness is to improve our productivity. That is really the basis of what we are talking about when we talk about structural change. In the short run, it means that to improve our competitive position we need to become more productive.

As we all know, Ontario's manufacturing sector has undergone a very painful period of downsizing, rationalizing and modernizing in order to become more productive. The result has been major job losses, many of which are permanent. In this recession, 50% of all layoffs in Ontario were permanent compared to the last recession when only about 25% were permanent. That has been a really major shift. Those jobs will probably not come back.

When we talk about restructuring, I think there are really two phases to it. One is something I call the short-run phase, which is how we make our existing industries more productive, more competitive. We have already done most of that. I do not think we can do much more at this point to improve productivity and competitiveness in our existing industries.

The second part of restructuring, which people like Michael Porter and other gurus talk about, is a long-term process and it has to do with which new areas we should look into, how we should foster research and development, how we should train our workforce so we can produce other kinds of goods. We need to focus on what is happening in the short run and what is going to be happening over the long run, and that is going to be a 10-year process. I am going to leave you with that and you can ask questions later.

I have a question here, which is the heading of the next section, "Is the Worst Over?" I have presented a fairly depressing picture so far. Are there any signs of improvement? I have dug through all the data I can dig into—I guess there are more, but I dug into as much as I could—and I think there are indications that the worst of the short-term adjustments is behind us. Remember, I am talking about short-term restructuring of our existing industries and the cyclical thing that has been happening here.

If you look at the Report on Ontario, on page 2 at the top of the page there is a table. It gives you employment by industry. What I did was I looked at where the peak of employment was for all of Ontario over the last cycle and where the bottom was. Then I looked at the same thing in each industry. What we see is that the peak of employment in Ontario happened in February 1990, where we had 4.997 million people employed. The bottom was in February 1991, where we had 4.737 million people employed. That is where we get that famous number of 260,000 jobs lost. People throw that number around a lot, and it is true. Between the peak and the trough of the cycle, we lost 260,000 jobs.

However, if you look at October's number, which was the latest number I had when I was preparing this, we see there has been an increase in employment. We have had a gain of 44,000 since the bottom of the cycle in terms of the total economy. I thought that was pretty nice, and then when I started looking at each of the other industries, I was kind of surprised because in every other industry, in every single industry, at least in these aggregates, we have had a net gain in employment since the bottom of the cycle. Each industry hit the bottom at different times. We did not all move together. So if you look at trade, for example, the peak was in November 1990 and the trough was in August 1991. We lost 120,000 people, but we have gained back another 25,000 since October.

That shows me that employment in all our major industries is indeed expanding. If it were still dropping, if economic activity were still falling, this would not be happening. To me that is a pretty positive sign that there is a fairly widespread expansion going on. It is very difficult to see that when you look at the monthly numbers because you have one month of positive, you know, an increase in employment one month, then a decline, and you cannot really see the trend, which is why I kind of looked at it this way. It gives you a consistent picture.

The other things I looked at are layoffs, and I was quite surprised. The Ontario Ministry of Labour released its lay-off numbers for the end of December, and it turns out there were 18% less layoffs in 1991 than there were in 1990. I was surprised, because when you read the newspaper you think there is no one left because everybody has been laid off. But if you look at the numbers the Ontario government has published, and I assume they are correct, there has been a decline. So the pace of layoffs is decelerating, and this compares to what happened between 1989 and 1990 when layoffs actually doubled. That is, to me, a positive sign. Maybe there are no more people left to lay off. I do not know. But I am saying that is no longer, in spite of the headlines in the news, on an upward trend.

On page 3, at the bottom of the page, I have a similar table to the employment table, but this has to do with manufacturing shipments. I will not go through every part of manufacturing, but again, if I take the peak, these are shipments and these are indices, so we can compare where they were. The peak of our manufacturing sector shipments occurred in February 1989, the trough, the bottom of the cycle occurred in February 1991, and that is a 16.4% decline in the value of shipments. However, if you look at what happened by October, we have had a gain of 6.5% since the bottom of that cycle. If you look at every single subsector in the manufacturing sector, you will see that there have been significant increases since the bottom of each of those segments' cycle.

I find that to be a fairly positive sign as well, because we worry about our manufacturing sector. That does not mean to say we are back where we were. I am just saying, to me, there is some movement and it is in the right direction; it is up.

I will summarize our outlook, which you have in detail in this publication. The Canadian economy we forecast to grow 2.7% this year, which is pretty much the consensus forecast, and I believe it is the federal government's forecast as well. I am forecasting Ontario to grow by 3.6%, and when I say that most people say, "Are you crazy?" Maybe I am, but I will stick with it. It may sound very optimistic, but if you look at what this means, it means that if we grow by that amount we still will only be where we were in 1989. Okay? We went down pretty far, so an increase of 3.6% is not going to get us above where we were a couple of years ago.

I believe we are still going to see very sluggish growth until springtime, but then the housing sector will revive quite strongly. Housing is much more affordable. Mortgage rates are at 18-year lows, and lower house prices have made housing much more affordable. This is especially true for first-time home buyers.

We have estimated that in Toronto the income required to carry a monthly mortgage in Toronto has dropped by 30% between June 1990 and November 1991. That is a huge decline. It means that if people who already own a home refinance their home at the lower mortgage rates, they too end up with a saving. What they do with that is, either they put it against their mortgage or they spend it, or some combination of the two. It gives them more disposable income. So I think there will be more money in consumers' pockets.

1030

Much of our recovery depends upon what happens in the United States. We heard President Bush last night. It was a rousing speech with lots of applause, but I am not quite sure what is going to come of it because many of the measures he proposed have to be passed by Congress, and Congress is not in the mood to pass anything he proposes. But I think he gave a signal and he probably did enough to hopefully raise some confidence. It will have more of a psychological effect than anything else. We need the US economy to recover—I think it is on the way to recovery—because we need our export sector to grow, and that will really help us.

We expect growth of about 4.5% in the two years following, 1993-94. Our unemployment rate will still remain fairly high in the short run, above 9% this year, because people who have dropped out of the labour force will come back and that will keep our unemployment rate high, even though employment will grow. We expect housing starts to climb to about 72,000 units in 1992 and to 81,000 by 1994. That is still below the levels that we were used to in the 1980s, but it is a lot better than what we have had.

We tend to get so buried in the bad news we read every day that we forget some very basic facts about Ontario. I do not want to be a flag-waving Ontarian or anything, but I would like to remind you of a few basic things about this province. We have some advantages in this province and none of them have changed.

First, we are located in the middle of the country. Our geographical location has not changed. We have not moved anywhere. We are still here. We are close to major markets in the United States. That has not changed. They have not moved and neither have we. We are the most diversified economy in this country. We are not dependent just on manufacturing. We are not dependent just on the resource sector. We are very highly diversified. We have the most highly skilled and well-educated labour force in the country. We complain about our labour force all the time, but we need to keep these things in perspective. We are still the primary destination of immigrants and foreign investment, and we will continue to remain the financial and commercial centre of this country.

Given what is happening with the constitutional debate, I do not see the financial centre and the commercial centre of the nation moving east. I also do not believe it is going to move to Winnipeg. Where we are means that we have those advantages and they will remain. Vancouver may end up being a bigger centre than it is now, and that is happening, but the major activity is not going to shift to Vancouver. Ontario will retain the lion's share of activity in the nation. That is not going to change.

I may be too optimistic. I hope I am not. Maybe you will invite me back next year and I can tell you if my forecast was right. I hope it will be. But I feel much more optimistic than the headlines would have me believe. We focus much too much on the negatives and we do not see anything positive. With that, I will end.

Dr Peters: If you have questions, we will be glad to answer them. I would add one little item, though. The gains: I emphasized that on looking at these employment charts and the manufacturing shipments tables, they do not add up. They do not add up because of the different timing. What you see is very different timing in various industries, and that is why you get at the bottom of a cycle this flood of bad news/good news, because some industries are still declining while others are advancing. You get a kind of mixture.

What this shows, though, is that we have reached the trough in all industries and we have moved up in all industries. The movement up in all of those industries has been modest as yet, yes, but they have all shown positive gains both in shipments and in employment. I think that is the major good news that Dr Getter was giving us.

Mr Carr: Thank you very much. I wanted to talk about the tax situation. I was going through some of my notes here. The Canadian Federation of Independent Business says that taxation has become the number one problem. You mentioned the situation with the GST scaring people off. As an economist, when they put that \$75 tax on cars, you would look at it and say, "It really wouldn't make that much of a difference." When you talk to car dealers, they say, "They would pay \$1,000 to get the car washed, but as soon as you say it's a tax, people resent it at all levels, federal, municipal and provincial."

The Treasurer has said that he has not ruled out tax increases in the next budget. We are looking at a deficit at \$14.3 billion. Most businesses looking at it are saying that a higher deficit means somewhere down the line, in terms of investment, we could be looking at higher taxes. The CFIB study says that as a result of the last budget with the record high deficit, 60% had scaled back their plants. What would your recommendation be for the Treasurer with regard to taxes? What would you say to him?

Dr Getter: I have seen a study put out by the Ontario Treasury and Economics ministry which says that Ontario still enjoys a tax advantage over major states like Michigan and Illinois and Ohio, and New York, I guess. I think that tax advantage has been eroding and will continue to erode as we continue to raise taxes. When I heard the Treasurer and I read the fiscal outlook, I was very alarmed. I was alarmed because there was much more discussion about tax increases—12 pages to 6 pages of spending cuts—and I think that proportion gave me a message.

I think the worst possible thing at this time is to burden Ontarians with more taxes. It sounded to me like the plan—I am not reading the Treasurer's mind or anything, but it sounded to me as if personal income taxes were going to go up, capital taxes were going to go up and there was going to be something done with the retail sales tax to broaden the base. All of these things are not good news for us. I think there is a perception out there, both from the business side and from the consumer side, that we are overtaxed. All the studies in the world from treasury are not going to convince people otherwise, and I think you are quite correct. As soon as people hear the word "tax," they get their backs up.

I would urge the Treasurer to go a little easier on his plans to reduce the deficit purely by tax measures.

Dr Peters: The major measure that will reduce the fiscal deficit either provincially or federally is to get a strong growth in the economy. You will not get a strong reduction in the deficit without strong economic growth. You will proceed to get further mired in deficit. So if tax increases were an alternative, were to dampen economic growth or to spur economic growth away from the province, you would clearly not be moving in a direction that would help that very substantial deficit, except maybe on a very short-term basis. But the longer-term basis is going to be that the Ontario economy is going to be growing rapidly. That will be the answer to any major reduction and continued reduction in the deficit. To encourage that, I would

suggest that not a tax increase at this particular time would be the best thing.

1040

Mr Carr: There are many factors that go into investment decisions. As part of my responsibility as critic, I have met with some of the international banks. They tell me very clearly that notwithstanding the statistics—they may be wrong, but their perception is for a lot of things—they see the private sector being driven out of the housing market with the rent bill; the same with day care. They take a look at the high deficits. They take a look at the new labour legislation. They are saying, "We're telling our clients, 'Don't invest in the province of Ontario.'" They say, "Gary, we know you are pushing a lot of these things that we stand for, but we can't come here and lie to you and say that we are." So I agree with that.

The whole broader issue of what we do with that deficit is the question. I know as economists you sometimes talk about the statistics. On page 15 of the Ontario Fiscal Outlook, the Treasurer has listed where our expenditures are going. As you know, the big whack of them come from social expenditures, 74% for health care, education and social services. In order to tackle it, very clearly you said that we cannot have any tax increases. As economists looking at it, where do you see, in the expenditure side, any areas to reduce the operating and/or capital expenditures in Ontario? Any wonderful suggestions? It is a million-dollar question, but if you could help us we would be really appreciative.

Dr Getter: You do that one.

Dr Peters: I think it is a several-billion-dollar question. The message that I read from the Premier's televised remarks, and it was a slightly different one than made the headlines of the papers, was that the limitation of grants to municipalities, universities and hospitals to 1% was a challenge to them, and that in a period when we are looking at inflation in Ontario which has been actually declining recently, they were getting some real increases of maybe 1% or 2% in real funds. The funding was going to be a plus of 1% or 2%, and they were going to be challenged to manage their individual municipalities, hospitals and universities within that amount.

I think that is the challenge that exists in this province today. We do not have an inflation rate of 5% or 6%. We do not have the necessity of running up inflation numbers that are going to pressurize things like wages and costs and all of the items. So all of our government sector must be operating within that guideline and saying, "Look, we have to operate on the basis not of 5% or 6% inflation but on a minus 1% inflation, so that every one of our suppliers, whether they are labour suppliers or what have you, have to be challenged to bring goods to us that are going to cost less."

I think that is the key factor. It is a management of those very large portfolios in the provincial government, the Health portfolio, the Education portfolio and the welfare portfolio. The challenge to manage those portfolios in a manner that will give you real increases in the delivery of government services at lower costs is the challenge to

the government today, and that is a challenge right down the line to the very smallest municipal government and the smallest hospital.

The Chair: Mr Carr, we have to go on. Mr Phillips, eight minutes.

Mr Phillips: In your presentation, I was curious, on the employment numbers, why you would not have used the end of December as your comparator rather than the end of October.

Dr Getter: When I was preparing this, the numbers I had available to me were just to the end of October. On the employment side for Ontario, I think the numbers for November are in. I am not sure if the December numbers are in yet.

Mr Phillips: But they were released at the same time as the layoff ones. You had the layoff ones. The ones for end of December show a fairly different picture.

Dr Getter: I would have to look at that. I just did not have it available to me at that time.

Mr Phillips: Just for your information, it is now down below that February 1991 employment number. Actually it has turned around in the last two months. I think it is now 4,711,000. If in fact that continues to decline and it is below the trough—and the manufacturing number I think is well below the other one; it is now down to 853,000—would that change your conclusion at all?

Dr Getter: I would really have to look at the whole. I will do that, as a matter of fact, as soon as I get my hands on the numbers. As I said before, though, if you look at month-to-month numbers, you can run to opposite conclusions each month. If we look at GDP for the nation as a whole, for example, it is up 0.2, then it down minus 0.1, then it is up 0.3, then it is down minus 0.4. Depending on which month you are in, you come to different conclusions.

I took October because it was the last date I had, but what I was trying to point out is that the trough did not happen the month before October. It happened several months before in most of these industries. Now, if I find that the December numbers are all lower, then perhaps I would have to reconsider and say, "Things are getting far, far worse than they were before." But I really would like to go through all the numbers.

Mr Phillips: I agree with you on using the one number. That is why I was surprised you used just one number yourself, for October.

Dr Getter: It just so happened that was the number I had available to me at that time. I seasonally adjusted the numbers also. I do not know if the numbers you are talking about are seasonally adjusted or not.

Mr Phillips: Yes, they are. You people are really close to the business scene just because you see it every day. Are you beginning to see a turnaround in investment? I think all of us would agree that is where the manufacturing sector will get the productivity increases you are talking about, with investment. Are you beginning to see now the turnaround, that the worst is over and the investment is beginning to pick up in capital?

Dr Peters: I do not think you will see a major change in investment in manufacturing until the capacity utilization gets up a little bit. There are massive amounts of excess capacity in most industries in Ontario at the moment, especially in the manufacturing area. Where the declines have been as large as they have been, you will not see very large amounts of investment. What you will see is small amounts of investment and you will see the investment levels being maintained.

When you look at the economic numbers, if the investment level stays steady in the national economy, that does not mean your equipment is falling off the floor. That means you are adding that much new equipment. So even maintaining investment at a flat level means that you are adding a lot of new investment each year. What you are seeing now is the kind of investment that increases efficiency and cuts back the use of workers. That is why we see the layoffs, because it is an efficiency-producing investment that is being undertaken now, even though you would not see overall great, large levels of investment.

Most of the decline has been in construction. That is the key. The machinery and equipment, which is the first thing you do—if you wanted to increase efficiency, you would get a new machine instead of an old one. That is continuing. Yes, we do see that in businesses; not large increases, no. You will not see that until you get to the next phase. You get back to higher capacity utilization rates, and in the boom period that we had in 1987-88, we had a boom in investment at that time. There will not be that boom until we get to maybe 1995 or 1996, when we get the economy rolling again.

Mr Phillips: Your forecasts of economic growth are more optimistic than the Treasurer's. I gather you feel he is being a little too pessimistic?

Dr Getter: I went to a seminar that was given, where Treasury and Economics presented their revised outlook. Their outlook, I believe, had been 3.8%, and they dropped it down to 2.2%. At the time, I thought they were being unduly pessimistic. That was just before Mr Rae's speech.

I think they are too pessimistic. I think we are going to see fairly strong growth in the second half of the year. I am going to stick with that. If I see that the next few months are really far worse, declining numbers everywhere, then I will revise it. But at the moment I still feel I will stick with this.

Mr Phillips: One last question, and then my colleague has one. In your judgement, how important is the manufacturing sector to the economy? You know, it is 20% of the jobs, and some people argue that it is the service sector that drives it. How much of an influence does your organization feel the manufacturing sector has on our economic outlook?

Dr Peters: The manufacturing sector is a key sector in export-oriented industries and in import-competing industries. In that way, it is more important than the 20% level that you would get. It is not the be-all and end-all; let me put it that way. I cannot work for a service industry and say it does not matter what I do. I am not going to tell you that. As an economist I would not say that. But it is a key

factor in the export business and we have to pay our way in the world.

That is one of the problems Canada has as a nation right now. We are not paying our way in the world. Even though we have a deep recession, we still have an international current account deficit of \$25 or \$30 billion and that means our import-competing industries are not sufficiently competitive to give us even a balance, let alone pay back some of the \$100 billion that we borrowed over the last five or six years.

In that sense, the manufacturing industries outweigh their proportion. The service industries are not largely in that, although some of them are. Banking, for example, is an exporting industry. We export banking services in fairly large amounts and bring in some fairly large amounts of money in exporting banking services.

1050

Mrs Y. O'Neill: I just wonder, Dr Peters, if you would like to comment on Ontario capital cost allowance reinstated as it was before and not limited to the environmental criteria and if you feel that would be useful. You were talking about equipment investment. What made you think of it?

Dr Peters: Capital cost allowances are always a key factor in investment decisions. Demand for the product is an even more key factor. Increasing that would be a positive factor for investment in part of the equation. But with the past utilization down so low, the big factor is getting demand for the products. That is another key factor that we should consider as well.

Mr Sutherland: Just a couple of quick questions. First of all, on your charts of employment by industry, where is retail in this? If you separated retail by itself, would it also show a positive increase or would it show a negative increase in employment?

Dr Getter: Retail is in the trade. There is a category called trade. I do not know. I would have to look at the numbers. I will do that.

Mr Sutherland: Could you possibly provide that for us? It seems to me that in some respects part of the confidence problem relates to people who work in retail sometimes—although it is not an appropriate term I cannot think of a better one—a second-income type of thing to support a mortgage or be able to afford more. If that second income is down, does that have any impact on overall consumer confidence? From my standpoint, it does seem that right now is a great time to buy if you want to buy something, but it still seems very slow. You have talked about a lot of things here. Can you give some overall sense of where consumer confidence is right now, and is that a major factor for recovery?

Dr Getter: I think it is a major factor. I think consumers are still scared. They read the newspapers every day and they get even more scared. I think, though, that consumer confidence is recovering or about to recover. If it is true that there are less people being laid off and that employment is expanding, then this business of always seeing your neighbours being laid off and hearing the stories is going to peter out in the next couple of months.

People will become less scared. As you say, this is a great time to buy, especially to buy a house. I think many people have held off, waiting for interest rates to really get down to their lowest point. I think they are just about there. House prices are not going to fall any more as far as I can tell. I think consumer confidence will start to build in the springtime. We will see that, but I think it is key. I am not a psychologist. I can only tell you from my own experience and I know all of us have this kind of fear. You think twice about buying something whether you have a job or not.

Mr Sutherland: Does the Bank of Canada still have room in terms of moving on interest rates to close the differential between us and the United States, and in terms of some devaluing of the dollar?

Dr Getter: Yes. Given that the government of Canada has its hands tied behind its back in terms of fiscal policy, the only thing it has left is monetary. They do have room, because the spread between our interest rates and these of the United States is still quite high. The United States has moved much more aggressively than we have. I believe they will probably move some more, so there is room for us to move. The dollar seems to be falling. I hope Mr Crow will allow it to continue to kind of fall. I think there is more room. Surely as the dollar comes down that would help us.

Mr Jamison: That is a very interesting presentation. I thank you for coming today, Douglas and Ruth. I cannot help but reflect back on last year's occasion to meet with you and many of the economic experts we met with last year who came here to give us information that would help us to try to meet the challenge. We knew we were in for an economic downturn, so sharing the information with the experts was valuable in trying to plan a game plan to fight the recession—that is what we chose to do—based on the term that was forecast.

I look down the list again, and this year the same experts are coming in. I can honestly say that none of you were right in your projections. What in fact makes you feel more confidence or as confident about your projections this year about a recovery, a rebound, as you felt last year? It is very important to realize that, because a lot of the information you give us really supports treasury information and allows us to make decisions based on what direction we should go in. You have talked about a stronger recovery than the Treasurer would expect. Why would that be?

Dr Getter: Last year I sat here and Treasury had a forecast—I do not remember what it was; one point something per cent—and I said, "It's going to be minus 2.1%." So I was right and they were wrong. That is all I have to say right now.

Mr Jamison: What I am talking about is the term of the recession.

Dr Getter: I will let Mr Peters answer that.

Dr Peters: What I would like to do is not discuss whether we are right or wrong but rather what it is that gives us some confidence that there will be a recovery. I think that is the more interesting question. Usually, in an

economic recovery in Canada, in almost every one, four factors have been key to getting the economic recovery in the country, and Ontario is 40% of it, so I can talk in national terms. First is a growing US economy; second is a monetary policy that brings Canadian interest rates down to a level about US rates or lower; third is the falling Canadian dollar either during the recession or just after the recession, and fourth is a federal fiscal policy that is expansionary.

As this particular time we do not have those four factors. This is the first recession we have had that has not had those four factors and that is why the recovery has been so slow and stultified. We are looking ahead now in this year 1992 and I think we see a stronger US economy coming across as a reasonable forecast. That is a reasonable assumption. The US has realized that it needs some economic stimulus and it is going to. That is the one plus we look at. Second, we do see a narrowing of interest rates. Interest rates have fallen substantially in Canada even though they still remain well above the US rates, well above where they should be. Third, we do not as yet have a sharply lower Canadian dollar, although it has declined quite a little bit in the last eight weeks. Fourth, we do not have an expansionary federal fiscal policy, nor am I looking for one if I read the Minister of Finance correctly.

I am looking ahead. Instead of getting a very strong economic recovery as we did out of 1982-83, when it was 6% real growth in Canada and about 8% in Ontario, we are looking for a much slower economic growth rate out of Ontario, half of what it was, and a slower economic growth in Canada as a whole. Nevertheless, there is an amount of economic growth there. We look for the lower interest rates to give you lower mortgage rates, which they are now, to give you some consumer confidence. Nothing will improve consumer confidence more than a little bit of money in the pocket of the consumer, and that he will get when he renews his mortgage.

The housing market is a plus in the early part of this year because the affordability is stronger, much better. I think Dr Getter mentioned 30% better in Toronto. That brings with it some spending on consumer durables; it brings a movement of houses. If somebody buys a new house, he moves out of another one and purchases furniture, consumer durables, and that brings the recovery along. It may be spring or summer before you see those numbers and the way we report statistics it may take a little longer than that. But that is the reason we have a feeling the economic recovery is moving ahead, not nearly fast enough for my own liking; I would like to see a 5% or 6% real growth rate. That is what we need in this country. I have been saying that for some while. We do not need 2.5% but I will settle for 2.5%. That is a lot better than the minus 2% we had last year.

The Chair: I have to say we have run out of time. Mr White, I will put you on first for the next group. As I was saying, I was hoping for some good news and I guess minus 2.1% last year and 3.6% this year is good news for this committee. Thank you for appearing.

1100

CONFERENCE BOARD OF CANADA

The Chair: The next group is the Conference Board of Canada. James Frank and Paul Darby, would you come forward please. I would like to welcome you to the committee. We have one hour for the presentation and question-and-answer period. You may start. Please identify yourselves for Hansard in case some of the names have changed.

Dr Frank: Good morning, ladies and gentlemen. I am Jim Frank and I am with the conference board. My colleague is Paul Darby. What we propose to do, if you do not mind, is to go over a prepared statement that I put together for you today. I have given this to you so you can follow along with it. In addition to that are copies of our two attitude surveys, business confidence and consumer confidence, as well as our latest national outlook. You have a lot of numbers in front of you. As we did last year at this committee, we would like to go over and cover some issues and then we will do our best to address any questions you may have. I would like to speak for between 10 and 15 minutes and my colleague will talk for about 10 and focus on the Ontario scene.

We are very pleased to have the opportunity to come here again this year. As you probably know, we are one of the leading forecasters in Canada. A lot of our members are scattered all across the country, one of which is of course the Ontario government. We have not fully updated our Ontario forecasts as of this morning. Paul will give you an indication of where we think the numbers will settle down. It is not going to affect the issues or the argument that we are going to present to you today.

I really would like to say a couple of words about the conference board so that you will all know at least where we are coming from in terms of our comments this morning. We are a private-sector, not-for-profit research outfit funded by business, government and other organizations in Canada. Our mission is to be the leading private applied research institution dedicated to enhancing the performance of Canadian organizations within the global economy.

In all our actions the board is guided by a number of principles. The most important one for our purposes today is our principle which I quote from the mission statement: "To be objective, independent and non-policy-prescriptive in all our work." This means that we undertake research and analysis of major issues without trying to be prescriptive or making recommendations as to what business or government or labour or anyone ought to do. Our aim is to inform our members of what we think these initiatives might bring to them and mean to their businesses.

Given this principle, in our presentation today on the economic outlook Paul and I are not going to be making recommendations to you or lobbying on behalf of any position one way or the other, in particular opposite your budget submission. We just hope the information we present to you will be useful in your deliberations and be seen as independent and objective.

What about the Canadian economy? The weakness in the second half of last year and current events suggest

there is little likelihood of a return to growth in the 4% range until the spring of this year. It is a very slow recovery. Our current outlook has been revised downward to a little over 3% for this year and next year.

A major factor behind this downward revision is the weakening in the US, which we now forecast to grow about 1.7% this year. We assume that the US economy is stalled until the second half of 1992 before you see much pickup in growth there. The overall weakness in the US is going to hold export growth to about 4% this year for us. One area of relative strength is housing starts in the US, which should be up around 15%. This will help lumber exports, not a major thing in this province, of course. Auto and parts exports are also a major strength, but in the second half of this year.

In spite of the weak outlook, there remain some key downside risks. I guess if I leave you a message today, it is probably that. Recent collapses in employment, possible structural changes and damage to the manufacturing sector, continued high level of consumer credit and so on are some of those downside risks. This latter reality means that the recent bout of cuts in interest rates may do little to stimulate further spending, aside from the areas of housing, autos and other durables which are affected by immediate cuts in interest rates as people refinance.

We think the fate of this outlook very much lies in the hands of consumers, people like you and me, people who walk the streets, people who buy goods and services in the stores. Our forecast assumes that interest rate cuts are going to trigger household spending in the first quarter of 1992. Consumer spending will grow only 2.5% this year. This is very weak compared with previous recoveries.

Part of the sluggish growth reflects employment growth of only 1.75%, as firms are reluctant to rehire, given the uncertain path of recovery. This weak employment growth will hold unemployment above 10% throughout the year and dampen consumer confidence, make consumers quite reluctant to spend. A positive influence will occur on consumer spending because of some small real wage gains that occur early this year, as wage increases still exceed the very low rate of inflation we expect to have in the first half of 1992.

From a government revenue perspective, this weak employment and wage growth leads us to forecast a gain of only 4.6% in personal income in Canada as a whole, virtually unchanged from what happened last year. Thus the base for personal income tax collections is going to rise very slowly. Tax collections by federal and provincial governments from personal income taxes rise by only 4% to 5% this year, compared to 1% last year. So the turning point is there, but it is still a very gradual upturn. We also forecast a gain of only 3% provincial retail sales taxes across the country, compared to a gain of 6% in GST revenues.

Most of the risk to the outlook for consumer spending remains on the downside. With threats of increased layoffs and declines in confidence, we think households are going to concentrate on paying down debt rather than spending. This perception is underlined by the results of our most recent consumer attitudes survey, which I have given you.

Not only did consumer confidence grind to a halt, but it actually dropped 10 index points in the fourth quarter. Especially serious was the large decline that occurred here in this province from 83 to 66. This is a very serious issue. Consumers are very nervous, and if our experience with this index is anything to indicate the future, they are not going to be reluctant to spend. So consumer confidence has dropped.

Mr Sterling: I have just a point of clarification. You said they were not going to be very—

Dr Frank: Inclined to spend.

Mr Sterling: Okay. You said—

Dr Frank: They are very reluctant to spend. Sorry.

The decline of 73,000 in employment in the last two months of 1991—and of course a lot of that occurred in this province—and falling manufacturing shipments all show how serious the situation is. A consumer spending binge is certainly just not in the cards at the beginning of this year and probably throughout the year.

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On the business front, business investment of course is important. Roughly 60% of spending is consumer spending; you take another 20% for business investment. Our business confidence survey results are only a little bit better than those for consumer confidence. In the fourth quarter the index dropped three points from 101 to 98. The important thing here is that this index should be increasing at this point in the business cycle; instead it fell a little bit. Businesses see very weak economic conditions for the next six months. This is not going to help investment.

A very important finding in this survey was the sharp change in inflation expectations among businesses; 69% of our respondents now expect inflation in the next six months to be 3% or less, compared to 36% in the third quarter. There has been just a sea change in expectations about inflation in the corporate community in Canada. Whether this change in expectations remains is going to be a key to success in this anti-inflation focus over the coming years.

The recession has hit consumers and businesses very hard. Corporate profits declined about \$30 billion since peaking in 1989 and employment remains 250,000 people below the peak it reached in pre-recession months. As we look ahead, business conditions are expected to remain grim and employment gains weak even though the recovery is under way.

Our outlook for corporate profits emphasizes the competitive pressures that exist in 1992. Profits will not reach their pre-recession levels until after 1993. It took three years in the 1981-82 recession for this to occur and it is going to take longer this time. Several factors lie behind this outlook for profit levels, and I think they are important to emphasize.

On the demand side, that is, the consumer side of the profitability equation, how much money do consumers have to spend? There has been a big drop in employment since the recession started and it is not going to be reversed quickly. As I said, the decline in the last two months of

1991 really hurt. It is a real setback at this stage of the cycle.

The fight for market share and margin squeezes is going to remain the order of the day in 1992. There is not much prospect for rapid improvement in corporate profits from the consumer side of the equation. This means that income taxes paid by corporations will not be growing much in 1992, after having fallen by about 18% last year. Thus the level of corporate tax revenues remains lower than it was in 1989.

Furthermore, we think business conditions will remain tough because prices received for primary manufactured products are also likely to rise at very modest rates. There is little prospect of a major upswing in world commodity prices over the next couple of years and corporate profits are going to remain depressed, a factor which could easily short-circuit any stimulus from lower interest rates on investment.

Remaining profitable and improving profitability is going to depend on volume gains and cost control much more than on price gains over the next year. This is an important dynamic within the business community. The same point applies to manufactured products and is equally discouraging for profit growth and business expansion. Businesses and manufacturing are faced with a very tough year. Cost control will be essential for survival. The recession has been particularly hard on the manufacturing sector and it has almost certainly suffered structural damage.

A look at the results during this recession make the point. Employment loss this time is about 325,000 in manufacturing in Canada—Paul will comment on Ontario—virtually the same decline as in 1981-82. At that time it took us eight years to regain employment levels in manufacturing. What with plant closings, relocations to the United States and so on, the question is, will it take longer this time? The answer is almost certainly yes. This may well be leading us to overestimate the rate of recovery, particularly in this province, where most manufacturing is located.

Overall, the near-term outlook for plant and equipment spending, which is investment, has been revised downward substantially since our last forecast. The major factor is non-residential construction spending, both energy and non-energy. You take housing out of that, which is the only really good outlook component. The weak recovery, very low capacity utilization rates and a dismal level of corporate profits preclude any recovery in non-energy, non-residential construction investment until 1993. On an annual basis the decline is about 5.5% in 1992.

The outlook for overall energy investment has also worsened dramatically since the last forecast. It is mainly the result of declining natural gas prices. Environmental concerns have forced us to take the Grande Baleine project out of the medium-term outlook altogether, so overall energy investment grows by only 0.8% this year. That is a very weak performance.

For non-energy machinery and equipment investment, we expect the recovery to begin in early 1992. Much of the force behind this arises from ongoing structural adjustment on the part of manufacturers as they strive to maintain

competitiveness in the face of what we call a high Canadian dollar. Part of the adjustment is assumed to be achieved through cost savings as labour is replaced by more efficient capital equipment. Overall, non-energy machinery and equipment investment is expected to increase by only 1.6%, so you have really weak investment here.

The housing sector, as I said, is the only area where we see a bit of a bright spot, and residential construction is forecast to grow by about 13% this year. That is basically driven by demographics and declining interest rates.

I would like to comment a bit on fiscal and monetary policy and then turn to the issue of the currency. The 1991 federal and provincial budgets, except in Ontario, were restrictive and we see little change in fiscal policy in 1992. We have included the unemployment insurance premium increases already in our forecast, and this has a minor dampening effect on disposable income at the beginning of this year.

There has been a little sign of weakening on the federal side in terms of the resolve to hit the \$30.5 billion, and as you noticed, the other day they announced they would hit \$31.5 billion. Our forecast is more in tune with about a \$35-billion deficit at the federal level.

The current outlook in terms of interest rates calls for a prime to average around 7.5% in 1992 and rise gradually to average about 8.5% in 1993. That is because as the recovery picks up, we expect interest rates to rise gradually. From September 1991 to date, short-term rates in Canada have fallen roughly 1.75 percentage points, but this decline is almost entirely the result of declining US rates. The spread has been remaining virtually unchanged since then.

The current outlook assumes a partial loosening of the Canadian monetary policy in the first quarter of this year, with an additional 100 basis point, or one percentage point, decline in the spread, unmatched. Of course that means the US rates are not falling. This interest rate decline is in our forecast because we believe it is going to be used as an attempt to bolster what is a very weak economy in this country.

We have made a lot of progress on the inflation front and we have a relatively tighter fiscal stance in this country than in the United States, so we are guessing, at least, or forecasting, that this will not lead to a devaluation that will be very abrupt. Our annual forecast for 1992 is 87 cents compared to what we are at today. We can discuss that if you are interested.

The severity in the situation of inflation can be seen in the retail sector, which has had a decline in the CPI in the fourth quarter of only one tenth of a percentage point, but that is the first time this has occurred in 20 years. You can see how tough business conditions were in the last few months of 1991. Our forecast for inflation this year is 2.2%. It has been revised downward sharply because of this fourth-quarter result in the CPI, the delay in Quebec's GST harmonization and some other minor factors. Although we have a modest pickup in inflation in 1993 as demand strengthens, we think there has been quite a shift in expectations on inflation—I mentioned the business confidence survey—as well as in terms of labour relations results that are coming through now.

The slowdown in North American growth has caused sustained deflation in many raw materials and industry product prices. Prices have been falling. Steel, pulp, paper and mine products have all been hit hard. As the recovery takes hold we think there will be a general firming in product prices and this will bring some underlying pressure on inflation, especially as we move through this year. The feeble recovery in North America and the situation in Europe and Japan do not lead us to believe there will be any commodity price boom this year or next year in the world's economy.

On the currency, there has been a 21% increase in the Canadian dollar since 1986 and we think this is largely explained by the Bank of Canada's tough stand on inflation, in spite of the influences of the current account deficit and relative inflation performance. Fighting inflation with high interest rates has led to a very wide spread between Canadian and US short-term rates. Higher interest rates have had the effect of making the Canadian debt even more attractive to foreign investors as well as compelling Canadian corporate and government borrowers to look abroad for funds.

The critical question for credibility in international markets and continuing strength of the dollar is whether the commitment to lower inflation made in the 1991 federal budget will survive the pressures of the next few years. By forecasting a higher dollar through 1995—around 85, 86 cents—the conference board is explicitly assuming that anti-inflation policy will remain tight and wide interest rate spreads will prevail. A devaluation is inflationary, and for a government and central bank bent on keeping inflation low, devaluation is something that will be avoided, in our view, or allowed to occur only very slowly over time. Another way of looking at it is that the 21% appreciation over the past five years has been an anti-inflation “gift” of something like one percentage point a year in inflation, and it is not going to be easily given up.

Since 1986, we have had an appreciation from 72 cents to 87 cents, the latter being the average last year. Canadian manufacturers are having trouble selling abroad, especially in the United States, and Canadians find cross-border shopping very attractive. I should also say that we trade a lot of services, such as travel and hospitality, and the rise in the Canadian dollar has discouraged American travel to Canada while making it even more attractive for Canadians to travel south. Alcohol and gas are seen as cheap, and they are, and there is no goods and services tax. The hospitality industry is a major employer. These are hotels, restaurants, motels, amusement parks, you name it, and they go into the recession at about the same time as everyone else. It takes them longer to come out because spending is discretionary.

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A lot of factors affect the currency value and these range from perceptions regarding political issues, such as the size of federal and provincial deficits, current account balances and associated capital flows and monetary and structural economic policy changes. The interaction of these factors is enormously complex and their relative importance can change quickly. That is why it is so difficult to

estimate the net effect of all of these things on the currency.

What we will say, and what we have been saying for quite a long time now, is that the chance of a major devaluation to the 80-cent area within the next few years is very limited. Canadian businesses, whether in primary products, lumber, mining, newsprint, you name it, in manufacturing or wherever, are going to have to learn to live with a “high” currency. This is going to remain a key factor in forcing adjustment and, in our view, keeping inflation under control in the near term.

The comments I have just concluded here in terms of the Canadian scene and the issues we think are important in terms of our outlook are reflected in the comments I would like Paul to make on the Ontario situation. Then we will be more than pleased to try to address any issues or questions you want to raise.

Mr Darby: As Jim pointed out, in fact we are just now in the process of putting the finishing touches to our most recent outlook for the Ontario economy. I have not handed out any hard copy this morning, partly because the numbers are still subject to change but also because I wanted to make sure you had the most current thinking, at least on the economic picture for Ontario.

Based on the national outlook that Jim just spoke about, we are looking for growth in Ontario this year to be somewhere around 3.5%, and the rate of CPI inflation to be down sharply to about 2%. Employment growth, however, is very sluggish and only slightly over 1% in Ontario this year. The unemployment rate stays high, just under 10%, say in the 9.7% range. I guess the one major bright spot in the outlook is that we are looking for housing starts to get up to around 85,000. There were only 53,000 starts on average last year.

Again, building on Jim's comments, consumer spending, though pretty weak compared to previous recoveries, is still a major source of that 3.5% growth we are talking about. We do expect the consumer to start coming back into the stores, certainly by the second quarter. In the April to June quarter, we are looking for some return to the market on the part of households. For consumer spending as a whole in Ontario, we are hoping to get back somewhere close to 3% growth this year. In real residential investment, based on that large-share recovery in housing, a lot of which is now behind us, we are looking for growth in real terms on the order of 21% in Ontario in 1992. Those are the two major sources of strength that generate that roughly 3.5% growth.

The situation on the investment side is not nearly as rosy, probably another decline on the non-residential investment on the structures side and then only very slight growth on the machinery and equipment side. Exports, given the weak outlook we have for the US, I would say will be very weak for a recovery year and probably not exhibit much strength until we get into the second half.

Finally, I would point out some of the damage that has been done to the Ontario economy. Jim mentioned the employment figures of the last recession, which was seen as very severe and deep, when overall employment in Ontario fell by 221,000 jobs. To December of 1991, Ontario

has lost 212,000, almost the same numbers as we saw in the 1981-82 recession, which at least in growth terms was much more severe.

Manufacturing employment in Ontario tells another story. While in the last recession roughly 150,000 jobs were lost in Ontario in manufacturing, this time the number is 216,000 jobs. So if you are looking at it from the perspective of the manufacturing sector in Ontario, this recession has been much, much worse than the terrible 1981-82 recession. There is no doubt that the Ontario economy has taken it very much on the chin.

Jim talked of risks on the downside. I have to emphasize that the most recent economic data we have got since the national outlook was prepared—this provincial outlook will be based on that national outlook—is, I would say, on the downside. We are looking at employment losses again in November and December, which also struck hardest at Ontario. We would not expect, as Jim said, to see those kinds of employment losses at this stage in the cycle.

The sharp drop in consumer confidence in Ontario, which has come out in our most recent survey—not yet public by the way; you are the first people to get a look at it—is again cause for thought and certainly introduces some overall downside risk to the outlook. We would not at this stage want to suggest that Ontario will not recover in 1992, but I think the 3.5% growth rate may have to be tempered a little in terms of the most recent information.

Mr White: I had a couple of questions following from our last presentation, but I will attempt to tailor it to you. An issue brought up then, and by you as well, is the decline in manufacturing employment and production. In the last presentation an attempt was made by Ms Getter to suggest that we have both a cyclical recession and a structural sea change. I realize that is not part of your notations, but when we have the discussion in regard to the devaluation of the Canadian dollar, or the overall increase in that dollar, of course that produces the cyclical change. But with the free trade combined with that, I am wondering what effect that combination of a structural change with the cyclical change, which you are really addressing your notes to, would have in terms of recovery in the manufacturing area.

Dr Frank: Let me talk to that a little bit. Then maybe, Paul, you could just give a rundown on the auto sector and what we see there, because that is an example of a structural kind of change, the change that is going on underneath all of this, and that probably is not directly related to the immediate situation.

We have no estimates of the numbers of people or plants or whatever that are lost as a result of structural versus cyclical change. I believe that is not very easy to do, perhaps impossible. What does seem clear, though, is that the decline in employment in manufacturing and the steady stream of headlines that we see of actual plant closings and shutdowns suggests that there is a structural change going on. There are some components of this economy that are, if you like, downsizing or disappearing. The best examples of those are in the auto sector, in parts com-

ponents, where you see that pretty clearly. We have had an example of that just recently.

The Canadian competitive position is very much affected by the value of the currency. When we did our analysis, to go back to the structural issue as it is linked to free trade, we did not anticipate a rise in the value of the currency related to free trade at all. We see the rise in the currency as a cyclical thing, associated with interest rate policy and spreads, as I mentioned to you.

Our assessment when we did the work on free trade a couple of years ago was that there was not going to be a big structural change in Canada, with the exception of food processing, where you could see some change coming in, and footwear, clothing, textiles and furniture. Those are the main areas where you could see a structural change occurring.

What has happened in this recession is that we have had a province, Ontario, that has two years of declining activity. Two years is too long to be talking about cyclical change only. You really do have to belly up to the issue of structural change, ask where that is happening and try to find out whether anything really can be done about it short of major devaluation, which as we said earlier is not likely in the cards.

It is very hard to separate these things, but our sense is that there is more and more likelihood that we have suffered some structural change that is not going to be easy to reverse. That is why I said earlier that we may find ourselves forecasting a recovery that is quicker than what is going to take place, because we are working from history, which does not have that structural change built into it.

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Mr Jamison: A very interesting presentation. I recall you were here when I asked my last question about projections and how we all seem to have misjudged the depth of the economic downturn.

Just a comment and then a question. I tuned in and listened to Governor Mario Cuomo of New York state. Of course we are always being compared to losing business and jobs and investment over there. Their financial outlook of a deficit for the state is between \$5.5 billion and \$6 billion on the operating side. Given that climate, my question would be hinged to what the President of the United States, in his own little fireside chat, said when he spoke to the people of the United States and tried to give some indication of what he intends to do. Our whole economy here exportwise is hitched very directly to the potential upturn there as well. I wonder if you can make some comment about what you see in that area.

Dr Frank: I watched the state-of-the-union address last night. I guess I had a couple of reactions. First of all, the amount of money that is being talked about there—and this is really just off the top of my head because you cannot assess that without knowing the details, the timing and all the rest of these initiatives, so just put that in the context of what I am going to say to you—is small. The US economy is a huge economy and, as I listened to him, the amounts of money, talking about housing, some withholding tax form changes, are small. Whether that will

make a whole lot of difference that we will notice here in Canada, I would doubt. That is my initial rough cut on it. I do not think you can rely on what Bush did last night to make a whole lot of difference south of the border. The big thing down there is the interest rate situation. That I think is going to make the lion's share of difference. What he did last night, I would say, is going to be very modest.

Mr Sutherland: First of all, thanks for coming in. It is interesting to see that you are far more optimistic in terms of housing starts for Ontario than the previous presentation. What do you think makes you more optimistic than what they have been forecasting? We know that the Toronto Real Estate Board has come out with a study saying, "There's never been a better time to buy a house in this area because of the prices and the interest rates being down," but my sense is that a lot of people are still just looking. Not that many people are actually out there offering. Do we think people are going to make the most significant investment given the other things you said about consumer confidence in general?

Mr Darby: I have a few remarks with respect to that. The housing outlook we have for Canada as a whole, and the remarks also relate to Ontario, has underneath it of course the very significant declines in mortgage rates we have seen ongoing over the last year and a half or year and three quarters. There was quite an acceleration in that decline in mortgage rates over the last four or five months, and certainly that sets us up. As you said, "Never a better time to buy house."

Also, I think it is important to recognize that we still have a major demographic pressure on housing, coming mainly from immigration but also from just the rate of domestic household formation. Household formation is probably running in the order of over 200,000 units a year in Canada. Housing starts down around 180,000 are in some sense not sustainable in a long-term context from a demographic perspective. People will, hopefully at least, get a roof over their heads one way or another. It may be multi-plex houses, it may be cheap apartments, but they all count as starts.

It is important to recognize that the outlook for the housing picture in 1992, particularly in Ontario, does have some downside risk, and you mentioned the factors. It is a major investment, and consumer confidence is certainly down in Ontario as we have seen from the most recent data.

Finally, the most recent data on housing starts—we have had a couple of months now in Ontario, the November and December numbers—are also off quite substantially from the pace that we saw, say, in August through October, and it certainly puts the 85,000 start forecast for housing starts that we have now for Ontario next year in a critical light. Again, we feel there could be some risk on the downside.

But even saying that, it would be very difficult to imagine housing starts in Ontario, for example, being under 75,000 starts, still a major increase from the 53,000 starts we saw in 1991. The underlying pressures I talked about in terms of affordability from the much lower interest rates and also

the demographic pressure will definitely play a role in 1992. I just cannot see how we could get around that fact. While 85,000 might be too strong, to suggest that there will not be a recovery in housing at all in 1992 I feel is, at this point at least, definitely overstating the case.

All that said, housing is still not nearly as large a proportion of the economy as the consumer as a whole. I think that is where we have to think about focusing our efforts and attention in making decisions about how strong this recovery is going to be.

The Chair: Mrs Sullivan, your party has 10 minutes.

Mrs Sullivan: I too was going to follow up on the housing question. I think the points you have just made are very interesting in relation to having the projections perhaps being more likely at risk than you had first indicated. But I wanted really to concentrate on the question of growth in the manufacturing industrial side, where we have seen the most substantial job loss in manufacturing over the last while. I was interested that your real growth projection is 3.5%, which would take us below 1989 levels of economic activity. Comparing that to treasury's estimates of 2.2% real growth for the 1992 fiscal year, you might want to address those two different projections.

In terms of manufacturing itself, with your predictions that business investment is going to be slight, the machinery and equipment business probably negligible, inventories probably at their lowest levels now, how do you see that being kickstarted? We are expecting that lower interest rates are going to kickstart the housing industry and perhaps automobile sales. Where is the kickstart coming in manufacturing?

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Mr Darby: The points you raise are good ones. It is important to recognize that for the manufacturing sector in Ontario a lot is exported to the United States. Here is where the important role of the outlook for the US economy comes into the outlook for Ontario. As Jim has already mentioned, our outlook for the US in this year is very weak, only in the neighbourhood, I believe, of about 1.7%. Normally, if you look back at previous recoveries, we would ride on the coattails of the US to a large extent. The housing sector would certainly come back, but the US economy would serve as a major engine of growth for exports and manufacturing in Ontario.

This is not something we see happening this time around, not nearly to the same extent as it did in previous recoveries. This is a major problem for the Ontario economy as we move through 1992. Nevertheless, growth of 1.7% is better than declining growth in the United States and does help to generate some increase in manufacturing activity in Ontario to meet that demand. A kickstart is perhaps not the word you would want to use, however.

Another issue is domestic consumption. It is important to recognize that there is a fair amount of Ontario manufacturing which stays within Canada and feeds domestic consumption not only in Ontario but in other parts of the country. Again, the fact that we are forecasting the consumer in Canada to come back on the order of 2.5% to 3% this year is a major source of strength and is one of the

major factors behind suggesting we could get some new growth in manufacturing. But as we have pointed out and Jim has pointed out, that consumer outlook, although we are sticking to it, has some downside risk attached, particularly on the basis of the most recent numbers.

The short answer to your question is some growth from renewed activity in the United States; however, not as much as we would normally expect. The majority of the activity would come from homegrown increases in consumption and, to some extent, the housing sector as well. There is some manufacturing directed to the housing sector. As for machinery and equipment, most of that is imported. We have some growth in the forecast, but we certainly would not look for that as a source of strength for domestic manufacturing.

Dr Frank: Can I add one point here? To elaborate briefly, coming out of 1981-82 Ontario just skyrocketed. If you look, probably the most important factor was the auto exports. We had an increase of about 18% in 1984-85. It was spectacular. It was something like serendipity. We happened to be producing the mini-vans, which sold like hotcakes south of the border. As we scan our eyes across the industry here, the auto sector, and ask ourselves, "What products produced in Canada are going to sell like hotcakes south of the border?" frankly we do not find a lot. There is a structural issue in autos that we can come to if you are interested. But that feeds then to the steel industry, everything that feeds into the auto sector—very modest performance.

Mrs Sullivan: I know my colleague has another question, but can you just address some of the structural issues that you see in the auto industry in about—how much time do you need?

The Chair: You have four minutes left.

Mrs Y. O'Neill: I have only a short question.

Dr Frank: We will take one minute.

Mr Darby: You are probably already well briefed on the layoffs that were announced by GM. Clearly what we are looking at here is import penetration. As Jim has pointed out, you cannot imagine any rapid turnaround in the cost structure or the organization of the North American auto industry. This is something the Ontario economy is going to have to deal with for at least the next five, and perhaps on the order of the next seven to 10, years. That is something that should be taken very much to heart. When you start talking about structural change, there is no quick fix in the budget for that. You are going to have to learn how to manage your way through extremely difficult times in Ontario from a structural perspective for five or seven years. I think that is the message.

Mrs Sullivan: Thank you. I am delighted again to have heard from the prestigious conference board, which is I think the way you were referred to all the way through the last budget cycle.

Mr Christopherson: It is just disappointing that we would have to deal with this all the way through our second term.

Mrs Y. O'Neill: I want to go to consumer confidence very briefly. You have used as one of the factors of analysis a credit squeeze. Could you tell me what you feel caused that credit squeeze? As the second half of that, do you think some of this reluctance which you underline is psychological? I know there are several factors, but is some of it psychological, that the consumer is really keeping the wallet closed?

Dr Frank: All right. On the credit squeeze thing, interest cost for consumer debt as a share of disposable income is higher now than it was in the 1981-82 recession. In other words, it is around 10% of your disposable income as a society goes to service credit card, mortgage and other interest. Why is it that high? People borrowed a lot of money.

Mrs Y. O'Neill: When the times were good.

Dr Frank: Just cut away all the fuzz from it. If you go out and borrow \$100,000 to buy a house, there it is. What happened is that interest rates—we have been through this story—were pumped up and up went interest costs. That is why the credit squeeze is there. One of the elements we think is critical in this consumer turnaround issue is the fact that when you look at consumer credit for mortgage rates, automobile loans and, let's say, consumer and bank loans, you can get interest rates that are down in the single-digit or 10% area for those things now. A lot of people, though, carry significant balances on credit cards, which have not seen interest rates drop much, a little but not much. That is why we are saying that as you refinance you get a big pickup from lower interest rates. That is the story.

Now, as for the question on just a psychological side, your guess is as good as mine. You are a politician, you walk the hustings, you talk to people. When you have in a country 70,000-plus people losing their jobs in November and December, just before Christmas, that is a cold shower. I think just about all of us personally know people who have been unemployed for lengthy periods of time. That affects our willingness to spend. It takes time to get through that. I would say there is an element of that but I could never begin to quantify it.

Mr Darby: If I could just elaborate briefly too, consider the borrower who has been locked in for a two- or three-year mortgage and is renewing this spring. He looks at it. Maybe he has a \$100,000 mortgage he is still carrying. He might save \$200 a month on his mortgage payment. What is he going to do? Is he going to keep the same term structure, take the lower payment, go out and spend the \$200 or is he going to say: "No, I think I'm going to pay this mortgage off more quickly. I'll keep my payment the same. I'm going to reduce the amortization period. I'm not going to increase my spending"? That is a purely psychological decision, and it is important for our forecast of consumer spending, given the most recent data on consumer attitudes. That is a well-respected survey, so it is hard, good information. It is beginning to look more like the consumer may lean towards reducing his amortization, lowering his debt load, as opposed to, as you put it, opening up his wallet.

Mr Carr: Thank you very much for your presentation. Barbara alluded to the fact that you were very supportive of the last budget. In fact, the Treasurer and the Premier spent an extended period of time championing your endorsement, and I say "endorsement." Compared to the other economists, you were one of the few ones. It was interesting that when I looked at the Canadian Federation of Independent Business studies 98% of their members thought the \$9.7-billion deficit was too high.

Two questions: First, now that we are going to \$14.3 billion, what do you see happening to the provincial deficit? Maybe you can elaborate where you see it. The Treasurer has said that if nothing is changed and there are no cuts we will be hitting the \$14.3 billion. Where do you see it heading?

Second, as economists often like to revise their forecasts, I was wondering if you would like to publicly revise what your thoughts were on the last provincial budget. Did you think it was a good one in light of what has happened? Remember, your good friends Mr Laughren and Mr Rae will be listening.

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Dr Frank: First of all, did you read the piece?

Mr Carr: Yes, I did. I also heard the Premier's comments and the Treasurer's.

Dr Frank: Good. Okay. If you had read the piece, I would think that you would not be presenting it quite the way you are presenting it.

Mr Carr: But you know how the Premier presented it and how the Treasurer presented it.

Dr Frank: Do you take my point?

Mr Carr: I see, yes.

Dr Frank: Thank you. In terms of the situation now and this 14.3, I can read just as you can. The government has said unequivocally that it is not prepared to accept that number. I do not know what it will turn out to be. If you take our forecast here and look at the growth rates we are talking about, it is going to be a real challenge to make the expending cuts that are probably going to have to be made in order to keep the deficit on the track that they were talking about last year.

As I said in that article, the marketplace is going to exert a lot of discipline here because you are going to have further downgrading of bond ratings, a lot of trouble in terms of confidence if you have tax increases. People are concerned about that now. I think you can see that in the surveys all across the country. So what are the choices? These are political kinds of questions.

Last year at this meeting, we were told the deficit was somewhere around three and change, and you know what happened. We do not forecast directly the provincial deficits. We do forecast directly the federal deficit. What is the likelihood of this track coming through? I do not know. I suspect they are going to move heaven and earth to try to meet that projection they had in their 1991 budget.

Mr Carr: I appreciate what you are saying. I know how politicians at that time took what you said. I did read it. But it came out as being an endorsement, and for what-

ever reason the Premier and the Treasurer took it that way. I know even some of your members rushed to get a copy of it to see exactly what you did say. Having said that, I think what comes out of it is that the Treasurer and the Premier think very highly of your forecasting techniques and your expertise. With that in mind, the Treasurer is obviously listening to these hearings and will get copies of them.

With regard to taxes, the Treasurer has a decision to make: cutting spending. Again, I appreciate that you projected what the federal deficit was going to be. You do not do that with the provincial. There are two things he can do, cut the spending or increase the taxes. On the tax side, you are a good friend of the Treasurer. What would you say to him on taxes? Should you increase them? I am talking about, broadly speaking now, the provincial sales tax, the corporate tax and personal tax. Would you say to him on taxes, "Floyd, this is what you should do"?

Dr Frank: First of all, I would not say what he should do. I think the issue here is one of trying to sort out how much of the spending situation, the increasing costs in this government are a function of the cyclical changes that have occurred and the structural. I am absolutely amazed to see in this document compound annual growth rates for a decade in social welfare spending at 20%. That, most people would agree, is not sustainable. Legal aid rising at 15% a year for a decade is not sustainable.

The issue here then is how do you deal with those kinds of spending growth rates in an economy where we just report here a severe drop in confidence among consumers in the province, declining employment still in the province at this late stage in the business cycle? What will happen to consumer confidence if you raise taxes?

You can speculate about that and you can segment the market if you like to see which groups of people are going to react and which way they will react as well as I can. That is just speculation. On the tax side, the corporate tax system, from a policy point of view you have to watch your relative performance, relative tax loads, compared to your key competitors, because if you get that out of line too much you are going to have loss of employment opportunities. It is as simple as that, because capital is mobile.

Those are the kinds of considerations you are going to have to look at. You have to look at the incidence of tax increase. If you increase sales tax rates, you have an inflationary impact from that, you have a confidence impact from that, and it is also the largest source, you know—for a one-point increase you get the largest amount of revenue from it. But you can see what would happen to the inflation rate from that and you can see the groups of people that hits directly, and you can speculate about the impact of that on confidence. It is not going to be an easy budget.

Mr Carr: With regard to some of the net employment gains and losses, I had our friends at legislative research put together some of the stats that you will know from the Statistics Canada labour force February 1990 report. Looking at the job losses between—

Dr Frank: February 1990?

Mr Carr: This is the date we are looking at, February 1990 to November 1991.

What they did is take all provinces and look at the changes. They used the Statscan statistics and did it in percentage terms. When you look at that period, and remember now, we are thinking February 1990; that is from prior to the last provincial election until November 1991 of last year. They were the most recent statistics. Out of that, what came very clearly is, and let's talk in percentage terms, 4.6% of Ontario jobs were lost.

There were some that actually had an increase. British Columbia had an increase in jobs. Alberta was very moderate, virtually stayed the same, that is, 233,000. Quebec lost about 2%. The same federal government, the same interest rate policy, the same free trade policy, all these things were similar.

What you have to ask yourself is, what did we in Ontario do differently to finish so badly? Some people say it was manufacturing. Quebec has a high portion of its economy in manufacturing too. In simple terms for people, what did we do differently? Actually, it is not even your government. It is probably the previous government, because it seems to be from February 1990. But looking at the statistics, what did we in Ontario do that the other provinces did not do to deserve this tremendous loss of jobs?

Dr Frank: First of all, the words you use in terms of deserving this loss of jobs are inappropriate. Ontario does not deserve to lose jobs any more than Quebec or Alberta or anyone else. The answer here has to be in the structural impact of the changes that are going on around the world. We have talked a little bit about the impact of the high currency on manufacturing per se in this province, and Ontario I believe has a considerably larger percentage of manufacturing than Quebec does.

It is a similar situation to what happened to Alberta. When oil prices collapsed in 1986, Alberta just fell down

badly. That is a structural issue. There is not a lot you can do about a province that produces a large amount of oil or natural gas. The same situation now applies here with Ontario. As I have said, when you get a currency moving up considerably in a fairly short period of time and you impose on that the impact of a recession, a severe slowdown in purchasing power for the people, consumers, something gets hit. Manufacturing was hit in this province, and especially the auto sector, and especially the housing sector. What goes into houses? Durable goods, furniture, appliances, floor coverings, drapes, carpets. Where do we make those in Canada? A lot of them are made in this province. So if you have a housing sector that collapses as much as it did in Canada, it is not surprising Ontario gets hit. The same thing applies with autos.

It is not an issue of deserving. It is more an issue of the structure of this province versus the structure of other provinces. Take Saskatchewan. Saskatchewan produces grain, potash, a little bit of uranium, and it has one oil well. Farmers are in terrible shape. It is not surprising that potash is not selling because potash is used for fertilizer. Uranium is not selling because we are not building any nuclear reactors. Grain prices are rock bottom because of what is going on in the world. I mean, that is Saskatchewan's structure, and I would make the same point here in Ontario.

The Chair: Dr Frank, I would like to thank you and Mr Darby for appearing before this committee. I think your knowledge that you have given this committee is going to be used in the upcoming pre-budget consultation summaries there.

Dr Frank: Thank you. My pleasure.

The Chair: Thank you for appearing. This committee will be adjourned until 2 o'clock sharp.

The committee recessed at 1159.

AFTERNOON SITTING

The committee resumed at 1412.

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The Chair: The next person to come before the committee is Michael McCracken. Would you please identify the outfit you are with? We have one hour for your presentation; we have a question-and-answer period within that one hour for the members of the committee here.

Mr McCracken: My pleasure to be here. Mike McCracken, president of Informetrica Ltd. We are an economic research firm in Ottawa. I have on a couple of other occasions met with the committee, and I would like to simply give you a view of what the economic outlook looks like to us at the moment. I will try to do that very quickly and then we will throw it open for questions and I will try to field them as well as I can.

I have prepared for you a handout which is, perhaps, somewhat simple from your viewpoint, but this is what I have to use for CEOs of companies because they can just follow those arrows that we use a lot easier.

Let me first make a point about what is going on throughout the world. The first chart shows what the forecasts have been by the OECD, the Organization of Economic Cooperation and Development, essentially the developed-country club for the seven countries which are referred to as the G-7.

I have shown the growth forecasts for 1991, 1992 and 1993, and you might say, "Why did you bother leaving the old ones on there?" I left the July ones on there very purposely so you could also compare those to what they said last month when they released their December forecast. There are a couple of points I want you to take away.

First off, in every G-7 country the growth slowed down in 1991 and most of them are forecasting a pickup in 1992, although two key economies, Japan and Germany, are expected in fact to continue to slow in terms of their growth in 1992.

The forecasts made more recently, the ones released last month compared to those six months earlier, are generally lower for 1992 across the board, the only exceptions being the UK, which went up slightly, but partly because it got worse in 1991, and Canada, which did not change its forecast at the OECD between July and December, although, as you perhaps are aware, there were some modifications to some of those forecast numbers last week.

The year 1993 is generally seen as a pickup year in almost all the countries, with an average of about 1.1% growth increase for all of the OECD. There was not a number provided in July 1991 for 1993, but we are in an environment with the external economy improving in 1992 relative to 1991, and improving further in 1993. That is the backdrop, but keep in mind the pessimism that seems to have come in during the last six months. We may come back to that.

That is one of many assumptions behind our forecasts. The forecasts I am speaking to you about today are primarily based on the forecasts prepared at the end of 1991.

There are still some further shoes to drop before we do our next cycle on it, but I would be happy to respond to questions on these points subsequently in terms of where we might change.

A real quick look at the arrows: 1991 was down, a growth of about 1.3% nationally; 1992 is up; 1993 is up, and for 1994-96 the arrow should sort of show up but at a more gradual pace.

This year the strength will come from lower interest rates, improved trade, lower inflation helping real incomes and some recovery in housing. We have already seen the housing pick up off the floor it was on at the beginning of last year. We see in 1993 some continued expansion, exports, investment and inventories, adding a growth of about 3.7%, and 1994-96 averaging growth a little bit above 3%.

What I want you to take away is that even though we had a recession in 1990-91, it is not going to continue that way for ever and growth is likely to be restored. But even with what some of you no doubt will put down as rather rosy forecasts, the implication of even those growth rates are that the substantial rise that we had last year in the unemployment rate from a little over 8% to 10.3% essentially stays there in 1992, makes little progress in 1993 and also little progress in the 1994-96 period. We remain in our forecast, unfortunately, around 10% all the way up. That is because the potential growth rate of the Canadian economy is about 3%, and those are the kinds of numbers we are kicking out at this point in time in terms of our forecasts.

Behind this is a continuation of at least the spirit of the policies we have had for the last several years of fairly restrictive monetary policy and restrictive fiscal policy, both federally and provincially, at least in large part. In this environment the exchange rate—the next page over—did appreciate in 1991, and we suggest to you the best bet is to expect the dollar to stay roughly where it is. Anyone who can tell you they can forecast the exchange rate is either extremely wealthy or a fool, or both. Those are not mutually exclusive classes, as we know.

The point I would try to make to you is that if inflation in Canada is lower than it is in the United States—and there is no reason to expect it might be continuing that way—that is not the kind of pattern one should expect to see a depreciation in. We have for operational purposes said that the dollar will remain unchanged. We think the dollar is overvalued, but I would suggest to you that as long as the Bank of Canada maintains its inflation targets, it is not going to go for a nominal depreciation, and what will happen if you want to get some stability into the exchange rate is that you will have to do it by inflation in Canada being much less than in the US. That will lead to what we call a real depreciation that will eventually get to a stable point.

On the inflation front, the arrows were of course up substantially in 1991, all because of taxes, particularly the goods and services tax. In 1992 the inflation rate will be down substantially and essentially unchanged in 1993, 1994, 1995 and 1996, running around 3%, plus or minus a

half. That is by and large consistent with the Bank of Canada targets; at least it is well within the range or band that it has. A few years further out we get into some trouble in matching their objectives, but not necessarily in the near term.

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Just so you appreciate where we are at on the CPI, at the end of the year, in the December numbers the year-over-year change was 3.8%, which was suggesting quite modest inflation. In fact if you leave out the tax part of that, you are probably down under 2%. In the last three months of 1991, the most recent data, if that were expressed as a rate of inflation at annual rates, it would have been zero. In 1992 we are suggesting 3%, but it could be lower. The year-over-year number in January, the one you will be getting in a few weeks, could be as low as 1.5%, so I think that will be quite a shocker to some who have not been following the numbers. So inflation is certainly cooling.

In interest rates, because of that coming down in nominal terms, we have seen some easing in 1991. The prime rate ended at 8%. In 1992 there is certainly some further easing. We have seen some of that already. A prime of 7% or less by the end of the year is still in the cards. In 1993, some continuation of, I would say, fairly low nominal interest rates, perhaps the long-term interest rates also easing as people become convinced that inflation is at a lower level, and in fact there is even room for further easing in 1994, 1995 and 1996.

That sounds like good news, but I would point out that even the interest rates we have today, which seem low, are quite high by historical standards when expressed in real terms. If, for example, the current rate of inflation is zero and you are sitting there with a prime of 7%, that is a 7% real interest rate you are facing, or, if you are borrowing at 7% or 7.5%, you are still in a position where you are not stable in terms of your debt ratios. I think I went over that previously with the committee.

But these nominal interest rates are coming down and they certainly provide some help to the economy and some help to federal balances. The federal deficit in the calendar year 1991 is up at about \$31 billion. In national account terms, that is equivalent to about \$35 billion or \$36 billion. The number we just got yesterday is for the fiscal year and is a little bit rosier than that, but this too is a forecast, so we will see what happens. But improvements in 1993, 1994, 1995 and 1996 and basically the combination of better economic growth and lower interest rates will contribute to substantial improvements in the federal balance. We are assuming at this point no significant change in policy on the fiscal side.

That is covering the big numbers. There are lots of concerns out there. Let me just hit them very quickly: Is the recession over or not? Are we going to get these further interest rate declines? Will the financial system keep glued together in Canada and the US? We have seen a couple of benchmarks passed on the international negotiations on GATT, but there is still the potential for failure, and if so, what follows that? Then of course our regular actors, fall-outs from constitutional debates and continued federal-

provincial wrangling. We can come back to those if there is any discussion you want.

Turning to the next chart, I want to explain to you what this is. If you need further explanation at some point, I can send it down to the committee, or you may be getting the monthly economic review, I do not know.

Why is it that we seem to be so bloody confused at this point in time in terms of what direction we are going, whether or not we are going to have a recovery, what is happening in the US, what is happening in Canada? I would contend that we all got fooled by the events surrounding the Gulf war, and in particular by the substantially higher oil prices from August 1990 on and then the also quite rapid falloff in those oil prices in March, April, May and June of 1991. A big oil price hike, as a first approximation, is not unlike a big tax increase. What we essentially had was a tax increase imposed in August worldwide, it lasted about six months, and then the tax was taken off. That alone would give you an oddball pattern to any set of data you might look at. In Canada we had our own little fillips, with the GST in the first quarter of 1991, leading to perhaps some delays in spending, and in the fourth quarter of 1990 some hurry-up spending in some sectors and not in others. Certainly the external environment was affected by the Gulf war, but internally we also took that hit with higher oil prices.

What you see in front of you here are the quarterly changes. The light grey bars are what was actually measured by Statistics Canada through the third quarter—the national accounts and growth of GDP—and the black dot is an estimate, starting in the fourth quarter of 1990, of what the numbers would have been if we abstracted from the effects of higher oil prices and the GST. What you would have seen is a much more gradual recession, but one that would have continued out through the third quarter of 1991. In the last panel there, if the fourth quarter shows no growth on the actual data, or very little growth, that would be consistent with a rather rapid pickup in the underlying economy.

Let me make it simpler for you. With the end of the Gulf war, there was a big boost in economic activity in the US and Canada in the second quarter. That is that big grey thing up there. Then that petered out. So people looking at those data see things cooling down. Their minds are set on that arrow pointing downward to the right. But it would appear as if the economy in fact is coming out, but slowly, from a recession, due to other factors independent of the war, and we should be looking forward in fact to improvement. We will get an idea of this as the next few months come along. We are obviously making some heroic assumptions here in terms of the timing of these effects, but what is key for you to know is that these are symmetrical; that is, what was taken out of one quarter was put into the other quarter, and all of that arithmetic was over by the third-quarter levels of 1991.

I have tried this on a number of people in both the US and Canada, and at least those who are close to the data seem to say: "Yes, that fits with what was going on in our minds at that time. We were euphoric and we thought we had recovered and, yes, now that we think about it, it

might have been related to that cessation of war or the beginning of the war."

Anyway, I leave that with you as a thought. On the monthly numbers, the recession may have been over back in April or May; we have been expanding since that time. In the last couple of months, however, it has sort of plateaued out. We did a number on Friday which I suspect will be down slightly or up slightly but it will not be a big change. On the other hand, if we continue to slide, it could be that we will have a longer recession than the 1981-82 one. But so far the drop has amounted to about half the drop that occurred in the 1982 recession.

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A final note just on the unemployment rates in this recession. I think I showed this chart to you last time and we have simply updated it. This essentially shows when the unemployment rates started rising in the different provinces and nationally and when they started falling. It has not started falling yet, although it has been, on a sort of three-month moving average basis, going flat in Canada, although the provincial components are still rising on a three-month basis.

The key point to notice first off is that Ontario's unemployment rates started rising in the early part of 1989. As of December, the total change that has occurred in Ontario is an increase of some 4.9% in the unemployment rate, larger than any other province. The next largest was PEI, which is up 3.4%. So sure enough, Ontario got particularly hard hit. It is not surprising, because in all the work we have done, the policy instruments that have been used to create this recession, namely, higher real interest rates and a higher exchange rate, show a concentrated effect on Ontario. Ontario was hit by that type of policy more than, for example, a broad tax increase or a number of other ways they could have chosen to create their recession.

Those are my formal comments. I do not know whether there are any questions about that, but I would be happy to throw myself open to your questions or comments.

Mr Phillips: Thank you again for your help. I may have missed it in these remarks, but in terms of looking at Ontario's real growth rate in 1992 and 1993 and its unemployment and employment numbers, have you got a feel for what we might look at here?

Mr McCracken: Consistent with these forecasts, we had a fairly robust growth in Ontario, about 4.8%, 5.3% in the next couple of years, bouncing off two very bad years, and the unemployment rate declining from an average of 9.7% in 1991 to 9.5% and then down to 9.2% by 1993, suggesting that the growth in Ontario was above the potential growth rate.

So far, I would say we are not uncomfortable. I want to see what is in the two federal and provincial budgets, but the uncertainty on this one is probably more on the US side than anywhere else. If the US economy is less rapid, and there is some sense that forecasters have marked that down there, then that will impact particularly on auto demand in the US, which in turn will particularly impact on the Ontario economy. A very large contributor to this growth was pickup in US auto demand. The reason the US

auto demand is important, as you perhaps are all aware, is that it is that which drives the industry in Ontario, not Canadian demand for automobiles. We only make a small percentage of those in Canada.

We have not altered our forecast here yet, either nationally or provincially, but the tendency would probably be to go down if we adjust that US forecast. Now President Bush announced a program last evening. You will have to be the judge as to whether you think it will make all the difference. Certainly lower withholding will be something which will be a plus for consumer demand. Improved depreciation allowances will again be a plus for the transportation sectors, as well as other equipment. Capital gains taxes will not make much difference. A moratorium on government regulations probably will not make much difference. But there are enough things there which at least on balance would suggest that if you were pessimistic about economic growth prospects in the US as of Monday, perhaps as of Wednesday morning you are a little less so—not a lot less so, but a little less so. Of course it should be said, I guess, that given that it is a presidential election year, there is a very strong motive for Mr Bush to try to make this a very good next 10 months, because that has a lot to do with the probability of his getting re-elected. Interest rates are down too, and that should help trigger much more than we were thinking they were going to be a couple of months ago.

At this stage I have not revised my forecast down to 2.2%. We were not that far away from what the ministry was last December, so I was quite surprised by the magnitude of the revisions in the material tabled by the Treasurer last week. It seemed to me to be quite a pessimistic view of what would happen, although that might be the outlook pre-budget.

Mr Phillips: No.

Mr McCracken: Maybe post-budget it will look better. Is that conceivable? No? Okay.

Mr Phillips: You are in the 4% range?

Mr McCracken: Yes. We will see what happens. All I can tell you is that the Ontario economy is very sensitive to what we do to the US auto outlook in particular. We could move that number around one percentage point just by delaying the recovery, but if we delay it, the demand is still there, okay, so you pick it up with strength in the subsequent year.

If Ontario is as low as 2.2%, then the number I have the most difficulty with is the federal forecast of 2.7% for Canada. That is tough to square. It would imply a level of performance in some of the other regions in the country that would be quite phenomenal. When you look at our forecast for 1992, with the exception of Newfoundland and the territories because of resource developments, Ontario led the pack. If we mark that one down, it is not clear where one gets the strength to sustain a growth for all the rest of the provinces in excess of that of Ontario's.

Mr Phillips: That is useful. You are the third economist we have heard from, the third group, and they all are in the 3.5% to 4% range.

Can I have a couple more questions?

The Chair: You have about three minutes.

Mr Phillips: Your dollar estimate staying at 87 cents surprised me mildly in that I think others are predicting a slow drift down. In fact now it is below 86 cents, I think.

Mr McCracken: Yes, it dropped down to 85 cents and has now moved back up. I do not know what it is today; I do not watch it that closely.

Mr Phillips: But you predict for the next four years a continuation of that.

Mr McCracken: Yes. We used to have a forecast of depreciation because it made things work a lot better, but there is no way you are going to get that kind of depreciation and achieve the targets on the inflation front that the governor of the bank has set out. Those are not consistent with a depreciation. Ergo, what gives? We are assuming that either Crow or someone like him remains in that job and that this long-term policy of keeping inflation under control—

Mr Phillips: Because I am going to run out of time, can I just interrupt you? What do you estimate the impact of a one-cent drop in the dollar is on inflation, gross?

Mr McCracken: In the first year we get about 0.25% to 0.3% for 1%, or a 10% depreciation will give you a 3% CPI increase. After about three years it is up to about 5% for 10% or 0.5% for 1%, because what happens is that you also get an impact back through your wages, through your domestic prices, and the level brings you up. That is consistent with import content of about 30% or 35% in most of the economy, plus the decisions that are made by people who price in US dollars and so on. So we are not uncomfortable with that number. That number is one tenth of that in the United States, so we have nothing to learn from them about how to deal with depreciation. They let their dollar drop 20% and no one seems to give a damn. It is a different world.

Mr Phillips: That is because we have so much import-export.

The last question is just whether you can give me advice in terms of, if we are looking at a deficit this year in the \$10 billion to \$12 billion—

Mr McCracken: The provincial deficit?

Mr Phillips: Yes. Does that have any impact on your economic forecast?

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Mr McCracken: No, not in any negative way. If that is a result of something which—let me keep it simple. The deficit itself has no direct role. It is an outcome of our forecast, not an input to it. Certainly, if you spend more and as a result end up with a deficit, in our models and our work if you spend more you will get more. You will have a better-performing economy.

Mr Phillips: There must be an end to that eventually.

Mr McCracken: It depends. If the interest rates are consistent, real interest rates with real growth, there is no necessary end to it. If you try to run an interest-rate policy which makes it very burdensome to undertake debt financing for everyone, not just governments, then, yes, you can

make it a very costly process. That is the situation we have been in, unfortunately, for some time.

The Chair: Okay. We have to carry on with Mr Carr.

Mr McCracken: I will have to be quicker.

Mr Carr: I have heard some of your comments because you are so often on the television. I appreciate your coming here and giving us your input.

It is interesting that you talk about interest rates. I remember in the early 1980s renewing mortgages; we all remember looking one year at 19% interest rates. In the early 1980s we had inflation at 12% and we still had double-digit unemployment. Now interest rates are down to 9%, or whatever you renew a mortgage at, inflation is about 3% and unemployment is at the same level.

What I was interested in was the unemployment rates on your schedule from the period through to 1991. This morning I was talking with the Conference Board people and the statistics between February 1990 and November 1991 show very clearly that Ontario has fared far worse. If you look at British Columbia, which has actually had an increase in jobs, as has Saskatchewan, it is ironic that both those provincial governments that had an increase in jobs were both defeated. Your job figures do not necessarily translate into provincial support.

When I spoke with the Conference Board, they said one of the reasons is that Ontario is heavily manufacturing and they talked about the interest rates, the high dollar and so on. They then went on to say that Saskatchewan has been hard hit, as we know the farmers have. In spite of that they still had an increase in jobs.

My question to them and to you is the same. During that period of time, percentage-wise, we lost 4.6% of our jobs. Quebec, which has a high manufacturing output as well, lost 2%. Essentially, Ontario fared far worse in percentage terms, the ones we are using from Statscan that our fine friends at the legislative research have done. Suffice to say, Ontario fared far worse than all the other provinces. During that time, what was it in particular, in light of the fact that what we are talking about with this particular body is what the provincial government can do—what did the provincial government do during that period that made Ontario such a bad place in terms of job losses?

Mr McCracken: I think I would have a hard time pinning down the actions of the provincial government during that period that made it worse, other than to annoy the feds. That is essentially what led to, or was part of, the move to substantially higher interest rates, to cool down the overheated economy. You would not see that anywhere else in the country but you would see it here. As a result, of course, the move to both fiscal and monetary restraint with a real vengeance then created a recession. They will admit that this recession is not an accident. This is very much a deliberate move to cool things down and it started not at the end of 1990 or early 1990, but before.

I do not think during that period—if anything, the complaints were the opposite. The provincial government continued to expand, to spend during that period and that presumably would have been, at least from an expenditure viewpoint, a positive activity. I do not sense a reason to

pick out and blame the previous provincial government for the job losses. Some could argue that maybe they should have moved to try to offset it, but I think all that would have meant is that the feds would have pushed even harder in the other direction.

Mr Carr: I have had a chance to listen to you in the past. Of course I do not want to jump to conclusions, and you can correct me if I am wrong, but historically I would say you would be one of the economists who—again keeping in mind that we are going to be giving advice to our Treasurer—would say that we should be spending more to get out of this particular problem. If you could give advice to the Premier and the Treasurer with the upcoming budget, I would like you to think of two areas. What should we do with the deficit? Should we try to control expenditures and keep it from running up? The other critical question is the area of taxes. You talked a little bit about some of the taxes, as did the other economists. The Toronto Dominion Bank economist today said very clearly, “Don’t raise taxes.” What would your suggestion be to the Treasurer with regard to the deficit and taxes? In very simple terms, what would you say to him?

Mr McCracken: Floyd, take a Valium.

Mr Carr: If I was the Treasurer, I would, too.

Mr McCracken: I would suggest first off that he not get overly excited and raise a lot of taxes. I think that would be counterproductive. It would be particularly counterproductive if they were taxes which affected the CPI and triggered some Pavlovian response from the monetary policy side.

We have had this discussion before on the expenditures side. Let us all agree that no-one of any party, of any ilk, of any training, wants anything that is a dumb, wasteful expenditure. Putting those aside, then it certainly does not bother me if there is expenditure on things which governments do fairly well. Increased expenditure on infrastructure is one of those, increased expenditure on training is another, if we can figure out what it is we want to train people for. Anything that can be done either alone or in cooperation with the federal government to trigger private spending, business investment and consumer spending, is to be taken as a positive move.

The deficit will be what the deficit will be in the end. The \$9.7 billion was a fascinating number only because it was slightly below \$10 billion, and \$14 billion has now become a fascinating number because it is above 10. But we can be sure, post the next budget, the number will be below \$14.7 billion, right?

Mr Carr: True.

Mr McCracken: Announced, anyway.

Mr Carr: As I said earlier this morning, it is my critic’s responsibility to go out and meet with businesses, and the perception is that we are very highly taxed in this province. As a matter of fact, just to show you what happens, the night before last my office was broken into. The reason they went right through two offices was to get to the cigarettes in the variety store and they stole about \$10,000 worth of cigarettes. They did not touch anything.

We had free brochures on what is happening in the government of Ontario and they did not even stop to read them.

It shows very clearly that when we, for example, tax a product like that we set up black markets and so on. Businesses are saying to us that they feel overtaxed and most businesses are smart enough to realize that when you run up deficits, somewhere along the line you will have to have tax increases. Historically what has happened is that it is very difficult to tax individuals, so they have looked at corporations.

As you know, the Fair Tax Commission is looking at corporate taxes as a part of fulfilling the mandate of the NDP’s minimum corporate tax. Their report is coming out, which I understand has some dissenting views. It is fairly broadly based and there are two trends of thought. Very specifically, on a corporate tax, knowing the statistics out there now—

The Chair: Mr Carr, if you do not get the question out pretty soon the answer is going to run out of time.

Mr Carr: I used to be quick when I first was elected. Very quickly, what would you suggest the Treasurer do with the corporate tax?

Mr McCracken: The provincial take on the corporate income tax is a fairly small part of the total tax burden in that area as well as small in terms of his total revenue. If he wanted to be quite exciting he would simply eliminate it. He will not. Treasurers tend to be conservative and whenever you occupy some tax room you tend to want to keep it. It would not bother me if he just threw up his hands and said: “I put more effort into collecting this than it’s worth. We’ll just drop it. We’ll put a revenue tax on or we’ll go with a GST-type tax to pick up the revenue loss we have there. How’s that for you, business? A signal, you know, that we’re not in your face at all, supposedly.”

By and large, I would suggest there is not much else. He could do some things in depreciation allowance, restoration, all that tinkering, but we all know that if we cannot get the coordination with the feds to do it, it is not worth a hell of a lot. If he goes up they will go down, or vice versa, on any of these measures at the present state of affairs.

1450

Mr Sutherland: Coming back to the issue of where the deficit should be, I guess when you mentioned the things the government does well in terms of infrastructure, you really want people to have a good analysis of difference between deficit going for operating versus deficit going for capital. Do you see a difference in the benefits of those?

Mr McCracken: There are different leakages, that is, different impacts they may have on the economy. Revenue you collect is what we sometimes call fungible: You can spend it on anything. So it gets a little tricky to say, “This is a good deficit and this is a bad one” because there is a difference between two large numbers you are dealing with. But certainly one looks to a return on infrastructure different from the return one might get for an increase in welfare payments. That does not mean, however, that you necessarily want to forgo an increase in welfare payments for infrastructure. We look to governments, I believe, to be

responsible in a number of areas. I would not suggest, as some might, to cut 10% off of welfare and build 10% more bridges because I use bridges and I do not get welfare. That is often the level of analysis behind those proposals.

I would not say we need to worry about how the deficit is there. I think we do want to worry, in all the things we do, whether we are running a deficit or not, what is the payoff, what is the efficiency, what is the social return to the activities we carry out in government. Sure, they can be improved. But we are not going to say, "Let's stop doing anything until we can improve them." We have to make those improvements while we keep this economy moving at the same time.

I will leave with you a little two-pager that talks about some other actions that might be taken in the federal and provincial budget. This is more on the polemic nature, so I am not fitting the very well-balanced kinds of comments I have been trying to make to this point.

Mr Sutherland: When you gave the figures to Mr Phillips for growth for this year for Ontario, you said over 4%.

Mr McCracken: Yes. Our forecast was actually 4.8%, the one we produced in November. As I say, I suspect that will come down, particularly if we weaken up our US forecast, to 4%. Make it 3.5%.

Mr Sutherland: Roughly 4%. You also gave the unemployment figures at 9.5% for Ontario.

Mr McCracken: Coming down from 9.7% to 9.5% was our forecasted average for 1991. We did not have the actuals at that stage, but I think that is fairly close to what it was.

Mr Sutherland: I certainly do not have the most solid understanding of economics, but it would seem to me that if you are going to have any type of recovery, the unemployment rate has to come down. I am just wondering why so little decrease for the amount of growth you are projecting.

Mr McCracken: In the first year out you get what is typically called a cyclical rebound in productivity. That means the output picks up but the employment does not come with it. The kind of employment growth we are getting in that first year in Ontario, consistent with those numbers I gave you, was 2.1% in 1992, which sounds strong. That certainly sounds welcome and good. At the same time, though, what has happened in the last couple of years is that the participation rate has been dropping like a rock, surprisingly so. If that had not happened we would be sitting up here talking about an 11% and 12% unemployment rate.

We expect, however, as we come out of this recovery, and as happened in the 1982-83 period, that those participation rates are going to pick up. You will have extraordinary labour force growth matching your employment growth, almost, and that is why the unemployment rate will decline only marginally, even though you have a very strong growth here.

Mr Sutherland: Okay, and your figures for year two were predicting somewhere around 5% growth, and that is still only going down to 9.2% for unemployment? You are

seeing that trend occur over more than just the first year, well into the second year?

Mr McCracken: That is right, yes. We had a very severe fall-off. We had a 2.8% employment increase, and the unemployment rate dropping down to 9.2%, and then it goes down to 8.9%, 8.5%. I would be the first to admit that we could be off by half a point one way or the other on those growth rates, but the key thing to plant back there is that labour force growth has been subdued because of the deficit, the recession. When that turns around you are going to get people coming back in and giving more than normal labour force growth.

On average, I suggest to you that in the case of Ontario about 3% to 3.5% economic growth is required to stand still; that is, to get no change in the unemployment rate. That is what we would call the potential growth rate of the Ontario economy. For the Canadian economy as a whole it is somewhere in the order of about 2.5% to 3%. You are a bit higher than that because your productivity growth is a bit better.

Mr Sutherland: Do you have any figures on the basis of overall investment in Canada? Traditionally a large portion of foreign investment has come to Ontario. Do you have any figures to indicate that the percentage has declined in the last couple of years, or is relatively the same amount of foreign investment overall still coming to Ontario as a percentage of the overall Canadian economy?

Mr McCracken: No, I do not have any data on that. I am willing to bet money without looking at the data—and then we will go look at it—that Ontario has been doing very well, thank you. Let me explain why I say that. The numbers you see in the paper and in Statistics Canada's flows are only new direct investment coming in. That is about a third of the total foreign direct investment that comes into the country in any one year, the way we measure it. The balance is reinvested earnings by organizations already located in the country. Those do not get measured on a quarterly basis; they get measured in some other data we look at in terms of foreign investment position.

We already have a large amount of foreign-owned business in Ontario. My suspicion is that they are reinvesting, as they have in the past, and so you will see a continued substantial reinvestment occurring in Ontario, probably still leading the country in that regard. Oil companies can sometimes throw you off, but that has not been a problem lately. I think that is the number to look at if you are trying to establish what people are doing and thinking etc, because that represents not only the decisions of the new direct investment but also those that perhaps know the country very well and have been here for many years. What are they doing with their funds? Fortunately, those data are getting updated more currently and should be available through 1990 and 1991 probably by March, April or May 1992.

Mr Sutherland: If you had a foreign client, would it be your judgement that overall the Ontario economy is still very sound?

Mr McCracken: Oh, sure. I mean, we have not blown up the bridges. We are still located within one day's

truck drive of a significant part of the North American market. We still have a well-educated labour force. Why would you not want to put it here, or elsewhere in Canada for that matter? Nothing has happened that has caused things to go sour.

Mr Sterling: May I answer that question?

Mr McCracken: Oh, you want to answer? You are supposed to ask.

The Chair: Mr McCracken, thank you for appearing before this committee and for your wisdom and knowledge.

Mr McCracken: I apologize for being a couple of minutes late, but I managed to beat most of you.

The Chair: You are welcome to stay with us for a period of time to listen to some of the views of other witnesses coming before the committee.

1500

DRI/McGRAW HILL

The Chair: The next gentleman to come forward is from DRI/McGraw Hill, Mr George Vasic. Welcome to the standing committee on finance and economic affairs and the pre-budget consultations. We have one hour for your presentation with questions at the end of your presentation up to a period of one hour.

Mr Vasic: I believe the handout I am planning to use has been circulated.

The Chair: Yes, I believe all the members of the committee have a copy.

Mr Vasic: I much appreciate you asking me to come back and speak to the Legislative Assembly on the prospects for Ontario and Canada. The handout I have given you takes some of our own latest forecasts as they relate to things I believe you are interested in. I see from the agenda that you have been talking to economists at length and will continue to do so for the next day or so. I wish you the best in being able to listen to this dry, though important, subject for that length of time.

As a result, rather than going through many of the basics you are probably hearing and will continue to hear from each of the groups, perhaps I can concentrate on a few of the other things that hopefully you will not hear from them. None the less, as an economist I have to start on the first slide with a very brief statement of where we are and where we have come.

What is most important—I think the graph depicts it very well—is that after an initial rebound last spring the Canadian economy, and this is also true of Ontario, has essentially relapsed through the fall months of 1991. A new curtain of gloom has descended on the economy and as a result consumer and business confidence, though it never picked up strongly—what optimism was generated by the initial rebound has again wilted. I think the greatest apprehension we face at this time is that the fear is going to feed on itself and lead to a self-fulfilling prophecy of doom once again in 1992. What is important to note is that the increased pessimism about the state of the economy has come despite a steady improvement in the eco-

nomics fundamentals that typically have shaped consumer confidence.

We are a firm that analyses these things in a statistical manner, the intangibles as well as the tangibles, and what we have found over the years is that the vast majority of consumer confidence is in fact economics-related. You can look at the unemployment rate, you can look at the mortgage rate and you can look at the inflation rate, and if you put those together you find that the vast majority of what consumers are telling their pollsters is explained by variations in those three indicators; in fact, about 85%. If we look at each of those indicators, we find that two have been improving while one has been stable. Mortgage rates are at their lowest levels in nearly 20 years. The inflation rate is down a full three percentage points from where it was in January 1991 and, when the GST comes off, will be even lower when the next CPI is released in late February. For all you have heard about the lack of job creation, the unemployment rate itself essentially remains steady.

What I am suggesting to you is that what we have here is a situation where the pessimism really has gone well beyond what the fundamentals suggest it ought to be. Of course economists are no people to tell other people how to feel about things, but I think it is worth noting that gap is there. The economic fundamentals, and what I mean by that is a sober look at the actual statistics, do not suggest that pessimism should be as high as it is now.

What could be the reason for that? If you ask most people, it is because it is worse now than it has ever been. That is clearly not the case. Certainly for Canada as a whole the recession has not been as severe and, as I will show you in a moment, for Ontario things this time around are in some cases a little worse and in some cases about the same as they were in the last recession.

I think part of it is that people have short memories. The headache you had eight years ago, once it has gone away, does not seem to hurt as much. The one you have now, even if milder, is the only one you are concerned about.

Another element might be media reporting. Frankly, I believe this has contributed to the overall pessimism in the economy. As a result the newspapers and television, which are centred in Ontario, have been spreading the message of gloom quite forcefully throughout the land. There is also good evidence in the United States that through the fall months the US television networks in particular increased their efforts to show a White House race that really would be a race and thus played up every aspect of the weak US recovery. That got filtered through to consumer confidence measures and those measures again were cited as the most damning indication about what the future will hold.

The only problem with this is that if you go back to 1983 and 1982 and look at the media reporting back then, it was also quite negative. I have done that and I remember that year very vividly. We usually get negative media reporting, as I am sure most of you can appreciate, but it is hard to say that it is any worse now than it was last time around.

I think the situation is that there is a realization that our problems are long term in nature and not just cyclical. As a

result, when the cyclical components of the economy improve, confidence will not necessarily snap back. It suggests to me—I will speak about this a little more later on—that policy as a result should be more oriented to the long run, because even if short-run fixes will provide some immediate relief, they probably will not convince consumers and business that our long-run potential has been improved. If there is anything different—and all recessions are different—it is that underneath the cyclical downturn there has been a reduction in the perceived long-run trajectory of the economy, and that is the realization that people are feeling is going to hurt them the most; even when the short-run recession is over, there is no pot of gold at the end of the cycle.

What I want to do this afternoon is examine a little more the issue of consumer confidence and attempt to put it into some perspective. I want to look at that also within the context of Ontario. Then I am going to talk about some of the major short-run prospects and themes for the next year or two and then discuss a couple of long-term issues, because from what I have said already, you can imagine those are the ones that are, in my view, most important.

You may want to turn to the next slide, which is titled "Selective Confidence?" When you are talking about confidence, and everyone seems to be these days, it is critical to look at actions rather than expressions. I find several inconsistencies between actions and expressions that do not support the view that consumers are totally paralysed, though it is clear they are saying they are.

1510

The first one I offer you occurred during the recession. One difference of this recession compared to the last one that no one seems to have noticed is the behaviour of the personal savings rate. We went into this recession with an exceptionally low personal savings rate. During the recession, amidst all the doom and gloom, all the drops in the reported measures of consumer confidence, the savings rate stayed stable and low. The number is about 10%, by the way. In the last recession, the 1981-82 cycle, we went in with a 14% or 15% savings rate, which was quite high by historical standards, and during the recession the savings rate rose very substantially and was touching 19% during the worst of the recession. That is real fear. When we went into this cycle, one of my fears was that since the savings rate going in was at a 20-year low, what would happen if people really pulled back? The cycle would have been much more severe. In fact, they did not. This suggests to me that there is a discrepancy between that and what they are saying to their pollster when he calls late at night and asks about the state of affairs. I do not know what the reason is, but it is a very important development because this is an actual action that you can measure, and it did not occur. The story line about consumer confidence would suggest that if anything, the apprehension is higher now than it was last time.

We have done some research in the US, as I was mentioning earlier, about the determinants of consumer confidence. What I said earlier was that confidence, as people are saying, is worse than it ought to be given the economic fundamentals. The question then is, what happens to con-

sumer spending during these particular periods? We have looked at this over a long period of history and we find that when a consumer is saying one thing but should be feeling another, patterns in consumer spending tend to support the view that they are acting on the economic fundamentals. In other words, if they are unduly pessimistic now, that extra increment of pessimism does not seem to translate into lower spending. I think that is a very important point.

I will talk about how our US outlook has been revised in a few minutes, but it suggests that some of the confidence numbers should start picking up for no particular reason except that they are excessively low now. But that will also mean that spending gains will not improve, because our belief is that the reduction in spending has not neared the decline in what people have been saying about consumer confidence.

Another issue related to consumer confidence is that of the great overhang of consumer debt. About this stage in the cycle, the consumer is basically saying, "I am never going to let that happen again." What happened, of course, was that they accumulated a lot of personal debt in the second half of the 1980s. Then on top of that, rising interest rates came and they had a very severe liquidity squeeze. Lower interest rates are now alleviating that. The conventional thinking is that as a result, consumers are so scared that they are going to essentially save all of that extra cash flow.

My view is that that will largely occur, but not completely. Ironically, one of the benefits of having an over-leveraged sector is that when rates do drop, the impact on cash flow is even more substantial than it would otherwise have been. Short-term interest rates right now are about half the levels they were in the spring of 1990, and for mortgages they are at least one third below what they were in the spring of 1990. As a result, we believe some of that will trickle through to actual spending.

I want to look at some recent reality about consumer confidence. Again, what I mentioned earlier was the issue of actions versus expressions. If you look at the chart on consumer confidence, I have two things that are very sensitive to consumer spending or to consumer confidence: spending on housing starts and motor vehicle sales. These are Canadian numbers, by the way.

In a nutshell, what you find is that the rebound in housing has been, all things considered, reasonably respectable. Car sales picked up through the summer months, but it is car sales that have relapsed in the second half of the year. What we are finding here is that if there is a problem with confidence, it does not seem to relate to housing nearly as much as it does to car sales. This, of course, is perverse since housing is a much larger expenditure, a more leveraged expenditure. If anything, you would think consumers would be more scared of making a large commitment rather than a smaller one, but that is not the case. This also, in my view, supports the view that perhaps the doom and gloom about consumer confidence is somewhat exaggerated.

The question as it relates to this chamber is, what about Ontario? Turn to the next slide, if you will. I want to contrast that with the situation in Ontario as it stands today.

We all know that Ontario's recession has been much more severe than Canada's, and the employment graph that I have on that page amply makes that clear. However, if you talk to most people in the province, they are also convinced that this time around they know they are the hardest-hit province in Canada, but they also feel that it is much worse than last time around. The fact is that the numbers do not really wash with that. For example, in the 1981-82 cycle, the total reduction in Ontario employment was 223,000, or 5.3%. This time around the peak-to-trough decline in total Ontario employment has been 258,000, or 5.2%. That is approximately the same rate of decline.

The other perception out there is that this has been a white-collar recession as opposed to a blue-collar recession. This also does not make a lot of sense given that the reduction in manufacturing jobs is a much larger per cent of the total reduction. The truth is that white-collar manufacturing jobs are being shed along with blue-collar ones, but the fact of the matter is—my recollection is clear on this—that the 1981-82 cycle was in fact the first white-collar recession in Canada certainly since the 1960s.

The other thing to note is that the reduction in non-manufacturing jobs this time around has also been a lot less. The peak-to-trough decline in manufacturing employment this time has been 218,000 jobs, which suggests that there has been a drop of only 40,000 jobs in the non-manufacturing sector. This compares to 67,000 last time around. Importantly, the declines in manufacturing have occurred over the last four years, and this underscores my earlier point of there being a long-term element here. From December 1987 to December 1991 there has been a total loss in Ontario of 218,000 manufacturing jobs. In that same period of time, however, non-manufacturing employment has increased by 151,000. The point of all this is that in Ontario, the situation this time around is roughly the same as it was last time around, yet perceptions and commentators would argue that it is much worse.

So what about reactions? What I want to do in the next two charts is go back to the housing and automobile situation that I charted for Canada to see how the Ontario consumer is really holding up. If you look at those two charts together, what you essentially find is that in Ontario, both housing and automobile sales have been more or less mirroring the national picture. The housing rebound was perhaps two months late, but essentially it has shown an upward trajectory from February 1991.

You will hear more doom and gloom about housing in Ontario because folks tend to be comparing it to the unsustainable levels that were reached in 1988 and 1989. But the fact is, and that graph shows it very clearly, that there has been a noticeable rebound to what are probably levels that are three quarters of the way to sustainable levels. Frankly, part of the starts in the rest of Canada have been supported by government programs, so in some sense the rebound in the rest of Canada as shown here is artificially high. In fact, according to our forecast, the housing rebound both in Ontario and Canada has been so respectable that we are calling for a relapse as a result.

The opposite is true of cars. As was the case with Canada—I do not want to call it spectacular, because it was not—we had a rebound that was not totally unrespectable through the summer months, and essentially in the fall months car sales completely relapsed back down to recession levels. Again, what we are confirming is that here in Ontario, whatever you have heard about consumer confidence, the message is (1) they are acting much the way they are in the rest of Canada, and (2) the problem is not in housing as much as it is in the automobile sector. That is why in some ways it is ironic that the proposals you hear being put towards the federal government are how to stimulate the housing industry and you have not heard too much about what to do with the auto industry. What I am suggesting here is that we might take a little closer look at the auto sector.

Having raised the issue, I do have one small proposal on that subject. It is an outgrowth of some work that we at DRI have been doing for clients in the United States, but essentially it is a program to scrap old cars, to provide a bounty for old cars. This would be financed with an increase in the motor fuel tax.

1520

Let me just take a moment to outline what they have suggested for the United States. Essentially it was a \$700 bounty from the federal government—which would be a price that is higher than the average retail price for cars that are about 1978 and older—if they turn them in during the current year. It is always important, when you are designing programs to jump-start the economy, to have a deadline. Without a deadline there is no jump-start, because there is always tomorrow to take the action.

We found in our simulations that essentially there would be a trickle-up effect, if you will, into newer car purchases. This would be particularly beneficial to low- and middle-income citizens, who would get the extra cash beyond the value of their current vehicles.

Of course, you could do this without it being financed, but as I suggested to you earlier, any such action should of course be financed from other taxes. The DRI estimate for the United States was that this program could be fully financed with a two-cent-per-gallon gasoline tax, or the equivalent thereof.

The other benefit of this, in addition to providing additional automobile sales—which, it goes without saying, is particularly important for Ontario—is that it would produce very large immediate gains in air quality. It turns out that cars produced even in the late 1970s are 10 to 20 times dirtier than today's cars. A big improvement and a very cost-efficient way to improve air quality is to simply get those off the road. If what we have here is a program that can accomplish environmental objectives as well as providing a small boost to auto sales through an increase in the fuel tax, I think that would be something that is certainly worth considering.

Of course, the total effect is not going to save the recession. The major reason is that what you are doing is really moving money around. We are not proposing that one spend billions of dollars to subsidize an area of spending and then have that show through completely in the deficit.

What needs to happen is for it to be subsidized from funds from other areas. That is my one suggestion on what might be done for auto sales, and we will talk a bit more about the importance of that in a few minutes.

What I have been saying so far is conventional in the sense that the line of discussion assumes that the recovery we need to see is solely dependent on a revival in consumer confidence, on the belief that if the consumer could be persuaded to start spending again, this would spark enormous multiplier effects that would quickly ignite broad increases in economic activity. My view is that this line of argument clearly misses the point about why most economists believed this economic recovery was going to be weak. The leading edge of the recovery does include consumer purchases of durable goods and housing, but these two items only represent about one fifth of total consumer spending. The rest of consumer spending does not tend to kick in until the middle or later part of the economic cycle. If you look at consumer spending excluding those areas, it was 1986 before they led economic growth, year four of the economic recovery, and of course we had a full-fledged recovery before that occurred.

The reason most have been predicting a very weak economic recovery is due to two other factors which are present at the leading edge of the recovery and which we know will not be very strong this time around. These two are the inventory sector and exports, and I have two graphics for those.

The inventory sector is a rather technical and boring topic, but let me summarize it in about two sentences, if you look at the slide entitled "Inventories Stay Lean." I first remind you that during the 1983 rebound, where we had a very strong recovery of 6.5% growth over the first four quarters, about 40% of that came from the inventory cycle. Importantly, it is not a new accumulation of inventories, it is rather the end of the de-stocking phase of the inventory cycle. If you look back at 1982 you can see that the inventory-to-sales ratio was plunging very dramatically during 1982, and then it levelled off.

Essentially what happens is that during the recession you have a big negative from inventory de-cumulation. Then, in the recovery, you replace that with essentially a zero, or no accumulation, and that, for economic growth terms, is a plus, just as any other plus would be removing a negative. It imparts some strength.

If you look farther down that graph, you can see that in this cycle we clearly did not have a major or even minor inventory cycle. This was one of the lessons that businesses learned. In fact, this was one of the elements that cushioned this cycle, compared to what it might have been had there been a major inventory overhang. You can see in our forecast that we continue to see a declining trend in inventory-to-sales, so right off the top you can take 40% of the growth we had last time around. You can drop that 6.5% right down to 4% just by ignoring the inventory sector.

The more important element comes from exports, if you look at the next slide. You probably heard quite a bit this morning, and you will hear quite a bit in the next couple of days about the deteriorating prospects for the

United States economy and how that will impinge particularly drastically on Ontario. Suffice it to say that we actually showed some pretty strong export growth through that second and third quarter of last year, if you remember the first panel where we had an initial pickup in growth.

Our merchandise export grew at rates in real terms of 25% and 12% during the middle quarters of 1991. Unfortunately, 80% of that was in transportation equipment, and of course a lot of that came from here in Ontario. What happened was that in the fall, when the United States consumer became unnerved once again, partly as a result of the excess media reporting and partly as a result of diminishing reality in the United States, our export stopped dead in its tracks.

What you are seeing and hearing from the United States now are very substantial reductions in United States economic growth. I look back at our March forecast of last year, right after the Gulf war ended, and we were looking for 3.3% growth in the United States next year. Our forecast now is 1.7%. But what you have to look at is where their reduction in growth is coming from. That is what is important. Presumably most economists—I am getting to it—who will come before you do not just plug in United States GNP growth; they have to look at where it is happening. If you look at the United States outlook, as I did, what you find is that the reduction in the United States outlook comes completely from their own lower exports, lower non-residential construction and a milder inventory swing.

Last March the forecast for 1992 consumer spending was 2.3%; it is now 1.9%, a marginal reduction but not a large one. But the bottom line for Canadians is United States import growth. Surprisingly, this has been revised up. Now the United States has gone and changed its national account system to more closely match ours, since we are leaders in this particular area. So you cannot compare the figures exactly, but if you go back to the original ones, the revision would be from 7.1% to 8.1% in United States imports.

Of course, the next question is from where and what is the United States importing, and is that related at all to what we produce? What you find is that the strength in United States imports is going to be seen in automotive and other capital goods. It is mostly in the business area, and things like petroleum and so on have actually been scaled back.

What I think is important to recognize is that this province does produce a lot of manufactured goods and we do export a lot of machinery and equipment. Important for Canada as a whole, our exports of machinery and equipment are now significantly larger than our exports of agricultural, energy or forestry products and are about 90% the size of our automotive exports. It is a very important sector for us. It has held up well so far in this economic cycle, and if our United States outlook is anywhere near correct, we should have an increasing tide.

So while we are a little distressed that the US outlook has been revised down, the fact of the matter is that the areas where it is has been revised down are not the ones that are critically important to us. In fact that is why I have the slide "A Smaller Share of an Expanding Pie." The US

import pie at 7.1% growth for US imports—it is 6% on their new 87-cent dollar basis, but even that is a big growth number compared to all the other growth numbers you are going to see out there. If we can even keep our share in that, it will end up being a better number than we will be able to achieve domestically.

1530

What I have done on that chart is basically to graph in real terms our share of US imports against the real value of the Canadian dollar. That is a Canadian dollar adjusted for inflation differential. Note that it is on an inverted scale, so when the dollar reached its lows in 1986 we were at the top, and when it reached its highs recently we are near the bottom of the scale. That is just to make the visual correlation a positive one rather than a negative one. It is easier for people to see positive relations.

What our forecast has in fact is a continued decline in our share of the US market. Even so, the tide of growth in the US is strong enough that we will be able to see 5%, 6%, 7% real growth in Canadian exports over the next year. I think that will be an area that will pleasantly surprise many people.

A lot of folks by about this time are saying, "Well, that's all very interesting and I certainly hope you're right," but what they really would like to see is some fact now that leads to growth later. It is very difficult at this stage of the economic cycle to really believe that the recovery is coming when you have really no tangible sign that it is here already. If I can offer you one, I do that on the next page, which is the yield curve slide, which says it is positive for growth.

I think one factor that may have been overlooked in this entire situation is the accumulated effect of interest rate declines. Unfortunately, what most economists and people do is tend to look at the level of nominal interest rates compared to some historical number. You might even look at the level of real interest rates, but one thing that gets overlooked is the relationship between short-term rates and long-term interest rates. Essentially, that is what we call the yield curve. That is the light line on that chart. It is basically constructed by taking the long bond yield less the short-term treasury bill rate. Right now you would get a difference of about two percentage points in round numbers, nine less seven. If you then look at that and how that has moved compared to how economic growth has moved, you see a very hand-in-glove fit over the 1980s. In fact, relative to most economic relationships, this is pretty good.

The only thing I have done in that chart is lag the yield curve by one year. The other way to interpret that is if you take the yield curve today, it tells you what growth will be over the next year. The benefit of that is that no one can argue about what the yield curve is today; we all know what interest rates are today. That will not change, that will not get revised, that is not subject to forecast error.

If you look on that chart, if you go on the right-hand scale to 2%—and you will notice that the 2% does not come until a year into the chart, because that line has been lagged by four quarters—at the right-hand side of that chart, if you look at the line that is 2% and then go over to

the left-hand side of the scale and look at real GDP growth, you get a number like 6%. You can see that our forecast of economic growth over the next year is, annually, about 3.3%. Over the next four quarters, it is about 4%.

That rate is quite conservative compared to what the yield curve is telling us. What I am suggesting is that perhaps rather than looking at forecasts of 4% growth with scepticism, make some allowance for the fact that even we may be playing it a little bit conservatively because of this historical relationship.

Another thing you can do is look at other times when the yield curve has been about 2% and look at what the economic growth rates were. They are all at least 4% and sometimes as high as 6%. Finally, if you take a look at where the recovery is so far—the solid line through 1990, 1991 and 1992—we are more or less right on track with where we should be.

I offer this one graph to you as the ultimate simplification of the world but one that will, hopefully, offer you a little more confidence that a sizeable, more tangible recovery is not far away.

In overall summary, where we are with our economic outlook is that relative to most folks, I think we are less pessimistic than they are. It is interesting to note that many forecasters are even above what the Department of Finance is saying, which is 2.7% growth for 1992. Essentially where we are is that the recovery so far has been really propelled largely by an increase in interest-sensitive purchases, mostly housing. We expect this sector to pause and we really expect the recovery as a whole will be treading water through the first quarter of this year. But essentially, come the spring, we expect that export growth will grow by a larger amount than many and the lagged effect of lower interest rates, lower real interest rates and a very steeply positively sloped yield curve will provide a boost to growth.

I do not guarantee that you will be feeling much better, however. As I caught from the end of the last speaker, the issue is that you need about 3% growth just to feel like things are standing still. If we indeed achieve 4%, you may get a sense that we are going sideways and maybe there is a floor underneath you, but that floor will not have much upward momentum.

At this point I want to shift a bit to the longer term and maybe just offer a few comments on the longer term. At the beginning of my remarks I indicated that I think this is what is really important at this juncture. To that I have three slides which I will get to before I finish, and maybe I should do that rapidly in view of the time.

The competitiveness issue: I think we have all heard amply on that subject. I am not sure anyone knows what the word means any more, but I offer the following observations from that particular slide.

First of all, the deterioration in our competitiveness has come from what was the most advantageous position that we had in the last 30 years. Relative to the US, 1986—ULC, by the way, means unit labour cost—was the best position we ever had. Not surprisingly, it also coincides with about the lowest value of the dollar that we had during that period. Since then, of course, we have had three elements

to underscore that deterioration. One was the exchange rate, the second was wage increases growing ahead of productivity and the third was lagging productivity growth vis-à-vis the US itself.

The point is, if you look at this particular graph relative to the last 30 years, yes, we are above one but we are not nearly as bad as we were in the late 1970s, and I might suggest there is some element of this issue being clearly overdone. I also point out that for the average manufacturing firm, labour costs are about 20% to 22% of its total costs. Whatever the impact on unit labour costs, it is still not the most significant item on their overall bill.

One thing that I think has not been receiving sufficient attention is the issue—and this is on the next slide—of where the deterioration in labour costs has come from. Part of it is wages and salaries, but also part of it is what is known as non-wage costs or supplementary labour income, which I have charted there as SLI. What you have seen in the last several years in fact is that it is the supplementary labour income, which is things like contributions to private pension plans, unemployment insurance, Canada and Quebec pension plans, workers' compensation, welfare, etc. These have been growing much faster than wages themselves. This has of course added to the problem. However, many of the indices that you see published in Ottawa and elsewhere only include base wage rates and not the total wage bill in the package. It is very important that this adjustment be made to reflect the relatively fast increase in this particular component.

It has also helped foster this clash of perceptions between labour and business. Labour, if you look at its base rates, truly has not seen gains much better than inflation for several years. If you then take taxes off that, one could argue their real after-tax income has been deteriorating.

Employers, on the other hand, who have to pay the difference with this supplementary labour income, are seeing a much higher wage bill—much higher than reported inflation. On top of that, if you look at manufacturers' selling prices, they have been flat or down for the last three years. The relative cost of labour, from the firm's point of view, has been rising rapidly, while from labour's perspective it is getting less and less take-home pay. Both perceptions are correct, but the gap is explained by this wedge of increased costs mandated by government.

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I mentioned at the beginning what we need to do here is focus on the long term. Providing quick solutions I do not think is going to cut a lot of mustard with typical citizens today because I really believe they are not going to be fooled by this any longer; they know what the situation is and they know temporary job works, even in area of infrastructure and so on, may only add temporary relief to what is a declining underlying trend.

What you really need to address, in my view, are measures that affect the long-run potential of the Ontario economy. The reason for that is on my last slide, that is, productivity. The only thing we really have is our productivity, our knowhow, if you will. Exchange rates can fluctuate. Labour negotiations can ebb and flow, but at the

end of the day all we have is our knowhow. What you see on the graph is, in my view, quite startling.

Our productivity growth was doing just fine through the first half of the 1980s, and then it stopped dead in its tracks. I do not think it is a coincidence that this corresponds to the period when the Canadian dollar was at its lowest point in the postwar era. I cannot help but believe that corporations were not as vigorous in their pursuit of competitiveness with the help of a 68- to 70-cent dollar that languished through there. As a result, what we have is a very large productivity gap. As you can eyeball from that chart, the accumulated difference over the last five years is about 15% vis-à-vis the United States.

The good news is that productivity gains have started to come back. In 1990—this is using Department of Finance sources—we saw manufacturing productivity increase about 2.7%, and it looks like the increase in 1991 will be even more. I do not take the view that productivity is gone for ever. I believe we are experiencing, in a sense, more than a cyclical rebound here. What had to happen was that there needed to be some excessive pressure on firms to find those gains and do it. There has not been, in my view, an underinvestment problem in Canada or in Ontario.

If you look at investment during the boom years of the late 1980s, it was quite strong in Canada vis-à-vis the United States, so that investment has occurred. In some sense, what may be occurring is the ideal where we have put in that investment, those capital goods were relatively cheap as our dollar was rising—we import quite a bit of capital goods—so we were able to put in the machinery and equipment much cheaper. If the dollar should now fall from what is a much stronger competitive position, we could reap some very significant gains.

We have done some studies in the area which, since they are proprietary in nature, I cannot totally share with you, but I can share perhaps some of the major thrust of it. First, we looked at the share of exports in the United States market. This was really to examine the free trade agreement a bit. The question basically was, was there a big change in 1989, 1990 and for what data we had of 1991, and for what reason? The short answer was that there was not a substantial deterioration in market shares for manufactured goods in that period.

Second, we looked at investment for Ontario industries during that period, and we did it two ways. We asked, given the severity of this cycle, how has investment performed in Ontario compared to other historical episodes? We found here that the decline in investment was not at all out of line with what you would expect on a normal cyclical basis, suggesting again that the idea there has been more than the usual may not be totally true.

In addition, we took the same industry on a North American basis and we said, "All right, how is Ontario investment in this particular industry compared to investment in that industry on a North American basis?" There we found again no significant difference. In many instances, the performance was relatively better than was experienced elsewhere.

Rather than concluding that there has been a major historesis or deindustrialization of the Ontario economy

from which we cannot recover because there is nothing left to recover from, I suggest that the information to me is not conclusive. I will not say definitely that manufacturing is in the best shape it has ever been; that is clearly not the case. But what I am saying is that I believe that the negativism about it is overblown and that, in fact, we have been seeing some productivity gains in the last two years partly as a result of the pressure induced by the overvalued exchange rate. I am not saying that is how you should do it, but it is a result of that.

I just want to summarize now and leave you with a few concluding thoughts for the current situation. Obviously, with the current situation, there is a growing fear of really not providing help to the citizens of Ontario during these very difficult times, and I know you are receiving all sorts of advice on this subject. First, let me say that we should not forget that a deficit on the order of \$10 billion to \$14 billion is help, and this fact should not be forgotten. Collectively, federal and provincial governments are probably pumping \$50 billion into the economy this year. This is a help, and we cannot just cast that aside, because that is sort of what we expected the deficit to be.

No economist knows what the deficit itself should be or the debt-to-GDP ratio or indicators like that. All we know is that when they get worse, you are more leveraged than you need to be and you have less scope to act when you need to most. This recession has been a very good example of that, particularly at the federal level which has seen its fiscal situation deteriorate from a position that was exceptionally strong in the mid-1970s. I am not suggesting that Ontario's is going to do that, but I am suggesting that we are in exactly the same position.

Debt growth will now be very strong in Ontario, and in my view what needs to be seen during the next Ontario budget is a path of declining deficits during the recovery. Even if you are a fiscal conservative, you can accept, understand, justify, explain a deficit \$10 billion to \$14 billion, whatever the number. Whether it is \$14 billion or \$12 billion or \$10 billion does not really make that much difference, but what we need to see is progress during the recovery.

What was disconcerting about the projections a year ago was that there was very little improvement in the deficit during the recovery, and the spending was growing 3% or so in real terms per year. That is what we do not want to see. We do not want to see government spending as the engine of growth during the recovery. The difficult task is saying, "When has the recovery started and when are we out of difficult times?" The problem will be that it will be the end of the business cycle before you feel that times are normal, let alone unsustainable. That is what happened to the last government, and that has typically been the case.

No one stood up in 1988 or 1989 and said, "These are the good times," just as no manufacturing organization stood up in 1986 and said, "Thank you for a 70-cent dollar." They were bickering and complaining about something else. I do not remember what, but I guarantee you that they were. So what we need to build into the base plan is much more substantial declines in the deficit during the recovery years, which I suggest will be 1993 and beyond. I would suggest that a good place to start would be a 0% or 1% real

increase in spending. It cannot be a number like 3% because that is just keeping its share of the overall economy.

In terms of the type of help to provide now, I offered one with this vehicle scrappage program, which is a revenue-neutral one, which might have a small positive effect on auto sales, which are particularly important to the Ontario economy. There of course is not scope to provide programs that will make a really significant difference in the short-run performance of the economy. What we need to focus on, and I think what will please the citizens of Ontario most, is not throwing quick fixes at the problem, that we are addressing long-run issues. I do not want to repeat them ad nauseam because I think we all know what they are. These include more spending on research and development, job training, better education system, etc. The list is long, and frankly, I think we know what the list is.

What would be even better is to see initiatives in those areas that come as a result of spending smarter and spending in a more streamlined manner, because one of the issues that is bothering the public most is not just the government spending per se, but it is really the efficiency of government spending. If they can be told that we are being smarter about our spending, that is something that I think will boost their spirits considerably.

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We have come several years with persistent deficits and business cycles over the last 20 years that—the average consumer knows that building new bridges and so on is a temporary thing. I agree that it is better than providing simple income support because it allows capacity so that when the economy does grow, it can do so in a more inflation-free way because you have a larger infrastructure to handle the situation. But I think spending smarter will be the key and getting the deficit down during the expansion.

You can tell from my comments that there is an element of simply having to tough it out during this period, and the reason for that is that we are pretty near to the wall, if not at the wall, where we are now, and there simply is not the scope to undertake major programs that will make a cyclical difference. I noted earlier that the federal government was in that situation in the mid-1970s, and the major mistake that was made there was that they had a deficit that doubled during the recovery of 1976 to 1979 and it was totally as a result of their own initiatives, because spending, in a sense, was declining. It was purely as a result of policy measures that decreased revenue growth, and that is the type of situation we clearly want to avoid. So I think a lot of confidence would be gained by seeing a sharp reduction in the deficit profile during the recovery years. We will have to grit our teeth a little bit longer.

The emphasis should be on long-run programs as a result of smarter thinking, and one of the benefits of all this may be that consumers then place more realistic demands on government and more appropriate demands on government and do not have the view that they should be here to bail them out when the crunch comes.

With that I will conclude my remarks and be happy to take any questions.

The Chair: I will give you a chance to have a glass of water. You have been talking for 55 minutes.

Mr Vasic: That is longer than I had planned.

The Chair: Is it okay with the committee that we extend 10 minutes so that each party has five minutes? Okay.

Mr Carr, I know you had a question already on the first slide and I imagine you have a whole lot. We have five minutes.

Mr Carr: I just put my hand up early in anticipation that I might have one or two.

Thank you very much for your presentation. One of the problems we have is that when economists look at it, they look at some of the numbers of isolation from the policies. The previous economist and yourself looked at it and said, "There isn't reason to panic," but if you look at the situation—I will give you a couple of examples I talked about earlier this morning.

The Canadian Federation of Independent Business poll of small business groups said that as a result of the previous budget 57% of the members scaled down capital investment and 63% reduced hiring. They asked what some of the reasons were. They said: the total tax burden, the Ontario budget, the Ontario government's apparent bias against business, and the proposed changes to the Labour Relations Act.

An economist looking at it says: "That's crazy. Why would an individual scale back because of the Ontario government's apparent bias against business?" There are no quantifiable data, but when you look at it—and it was not just the small groups; the other ones list some of the initiatives, saying they are scaring them out of this province. So here you have economists saying you should not look at it like that. The reality is that individuals, being the way they are, interpreting things rightly or wrongly, are saying, "Policy initiatives are scaring us out of this province and that's what's killing us."

I look at a poll I did in my own constituency, and we all, through our newsletters, asked people, "Should the Ontario government pass a law limiting government spending?" Ninety per cent—now, there are not 90% of the people in there who are Tories, so that means Liberals, Conservatives, NDP, Green Party, CoR—everybody associated with that said the government should not be spending money.

Mr Sterling: Do you mean the NDP has more than 10% in your riding?

Mr Carr: They occasionally do very well.

Mr Vasic: Are you cutting into my answer, by the way?

Mr Carr: No, you had 55 minutes. I am going to take about 4 or 5.

The Chair: You are not going to get an answer here if you make a statement.

Mr Carr: Very clearly, what we have is a situation where, notwithstanding what economists are saying, policy initiatives of the government do scare revenue away. If you were to make a recommendation to the Treasurer, knowing these policy initiatives—the last chap who was in

said one of the things you can do, if you look at page 12, is that corporate taxes are only seven cents out of the dollar, very insignificant. If you raise them, nothing is going to happen. You would send a really clear signal if you eliminate it. For Mr McCracken to say that, I was quite surprised, quite frankly. Initiative like that will do nothing to the revenue side, but it will send a very clear signal.

Do you have any other concrete recommendations? Maybe you could comment on the corporate tax, whether you think we should get rid of it. To spur, for example, investment in the auto industry, could we reduce the provincial sales tax? Would that be something you recommend? Could we do it to the tourism industry, to selective industries that we see as fundamental? Could that spur recovery, rather than what we talked about before where the government does it, where we whitewash picket fences and when the fence is finished being whitewashed we are done?

Mr Vasic: No, yes, maybe.

Mr Carr: Thank you very much. That wraps it up.

Mr Vasic: I think, first of all, the reduction of the sales tax, or elimination temporarily, has in the past worked to spur car sales. But again, that is going to be a drain on revenues. I think frankly that is not a realistic objective, given the likely cost of it. Of course, it is a very temporary one, largely borrowing from the future and bringing into the present.

I find this issue of whether Ontario is a hospitable place to work and invest not as clearly cut as surveys and so on would lead one to believe. I think the issue I see most is really a fear of what might be done. It is not the taxes per se, but it is legislation, regulation and impediments to getting on with business. There will be financial implications, of course, but it is the potential erection of those that are seen as the barriers or the hurdles to not making Ontario as hospitable.

The hard part for anyone sitting in any particular room is to look around elsewhere. I would agree that Ontario maybe is not as hospitable as it once was perceived to be, but relative to other areas, other countries, other states, we still do have a lot to offer. I think that should not be forgotten. It goes without saying that if there is not much corporate tax collection, there must be not much corporate tax paid, so maybe that will not make as much of a difference as you think. Certainly you are not going to eliminate the corporate tax with a higher tax on consumers or something else. I think at this stage we should clearly focus on initiatives. If we are going to focus on initiative here, it should be funded somewhere, because certainly that \$14-billion deficit should be the ceiling from which significant improvements can be made. But I do not believe one should finance these things just out of larger deficits.

Mr Sutherland: I have two quick questions. You talked about inventories staying lean. Last year when the economists came in they said, "We're going to have a much quicker recovery this time because we have had much better inventory management than we had during the 1982-83 recession." Mr McCracken—I think you were here when he said this, when he was talking about the slow

decline in employment figures—did not seem to support that because he said it takes a while for employment to get going again. If inventories are lean and generally the economy is sound and things are looking somewhat optimistic, should not unemployment figures by going down more substantially?

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Mr Vasic: I hear what you are saying. The short answer is that, if you look at the chart, there was not an inventory cycle. Inventories were lean. You can be simply thankful they were because otherwise the recession would have been that much worse. You could come back—

Mr Sutherland: No, I just wanted to move on to one other thing: the automobile cycle. If we look at the auto sales business cycle, is part of the problem not that that cycle has really been lengthened by the change in automobiles? Are they not supposed to be much better built and longer lasting, so that the natural turnover that people would have in their automobiles has been lengthened, and all the incentives during the good times that were given to support unsustainable growth has really helped to extend the recession?

Mr Vasic: Yes, but that is more of a trend than it is a cyclical phenomenon. What you are saying is true, but you have to remember that whenever people do buy a car they are spending more dollars per car because they are getting so much more quality and so many more features. But what you are saying is the average lifespan is increasing. That is a trend. That will change the trend of auto sales more than it will the cyclical ups and downs. In fact, if there is one single indicator for folks to look at it in this room, it is that US one-day car sales figure, which is relaxed to the lowest levels they have seen. We have revisited recession lows in the US, although we feel that will come back. That is only a trend thing; that is not a cyclical thing.

Mr Sutherland: We have not really changed the length of the cycle? If so much of our manufacturing is stimulated by the auto industry, and you have a much longer-lasting cycle in terms of how long people are hanging on to their new cars because they are supposed to be built better and last longer, does that not have an impact?

Mr Vasic: Yes, it does, but you have to remember that even so there is a great deal of discretion in keeping a car one more year or one less year. A lot of that has to do with how you feel and what your income and financial situation are at that time. You can repair your car and so on to keep it another year, if you are apprehensive. You find those are essentially the scrappage rates. Those vary quite a bit with the economic cycle. So while what you are saying is true, it is not part of the—if you think of two things, of a trend line and an amplitude around it, that shifts the trend line. The amplitude is determined by cyclical economic factors. That is the easy way to think about it.

Mr B. Ward: I have a quick question; it may have been asked while I was out of the room. Are your projections for future growth in the short term based on the American economy recovering? I realize it is very short term in the sense that President Bush made his statement

yesterday, but will that have any impact on pulling the American economy out of the doldrums?

Mr Vasic: In short, his speech, I believe, was a small plus, in terms of what it meant for the American recovery. As I mentioned earlier, the US economic growth prospects have been revised down. Ours have been cut in half. But US import growth has actually been revised up. The areas of strength in US import growth are, (1) automotive and (2) other capital goods, business machines, telecommunications equipment, aircraft and so on. That is the thing that matters most to Canadians because that is what we feed into. We do not feed into US GNP; we feed into specific US end markets.

One thing that would clearly be of benefit of course is if the US consumer came back and bought some cars. All I can say there is that we believe that will occur. Right now, they are about as low as they can get and they have now twice visited the recession floors. As a result, the US recovery per se that we are looking at is only 1.7% growth next year, which is totally anaemic. But the import growth, which is what matters, has actually been strengthened. As I was mentioning earlier, our competitive position is not as some people would have you believe, for some of the reasons that I mentioned.

Mr Phillips: Just to confirm, you are saying economic growth in Ontario this year, 1992, will be in the 4% range.

Mr Vasic: From the fourth quarter of 1991 to the fourth quarter of 1992. The annual average we have for Canada, doing it that way, works out to 3.3%, but above average, a year where you can see the unemployment rate stabilize and perhaps come down a wee bit.

Mr Phillips: I am pleased to meet you; I think you have been the most optimistic economic forecaster in the country.

Mr Vasic: Our forecast is not the most optimistic, actually. In fact, if you look back six months ago, consensus has more or less come up to meet where our forecast has been sitting.

Mr Phillips: My concern is a bit like Mr Sutherland's: Last year we sat here and most economists were more optimistic than we were.

Mr Vasic: That is scary.

Mr Phillips: To every business person I run into, I say, "How are things going?" They have a more pessimistic view than the economists do. They have proven to be right and the economists in the last year have proven to be wrong. I hope the economists are right and I hope the people out there are wrong.

Do you build into your forecast any of the emotional side? Business decisions are made on judgement based on some factors, but then they say, "Just how does it feel?" Do you build that into your forecasts as well?

Mr Vasic: That was the purpose of my whole discussion at the beginning on consumer confidence and expressions versus actions. We can build that in. We have measures of confidence that do affect the key areas of spending. You have to remember that what you are basically suggesting is that people can be totally irrational for a

prolonged period of time with reality never really sinking in. They can certainly do that for short periods of time, but it usually does not work out that they can be irrational for long periods of time.

There is also the issue of the individual versus the group. You or I, one morning, may decide to go out and buy a VCR, or not buy a VCR that we were planning to buy, but when you collectively add it up you do not see these big swings the way you would expect. Given what you know individually to have is a great discretion in terms of, "Well, when am I going to buy that car? I was going to buy it last fall, but I am waiting now," you would think that a lot of people are doing that. It does not seem to work out that way. With the laws of large numbers you do not see that happening in such major fashion.

As far as business being more pessimistic, I ask you, when was the last time they were optimistic? I do not recall that in the postwar era.

Mr Phillips: I do. You are not out in the world that I deal in, then.

Mr Vasic: Actually, I remember in the late 1980s when they were optimistic about \$60 oil prices and planning on that basis.

Mr Phillips: I think through the mid-1980s people were—you and I must deal in different circles, that is all.

Mrs Sullivan: Yes, I'll say.

Mr Vasic: I do not think so. Business is always very cautious. They are always, in a sense, in a prepared-for-the-worst, hope-for-the-best mode. You very rarely hear great expressions of optimism. To me, things seem to ebb between normal and disastrous. When the good times are rolling, that is how it should be. That applies to the consumer equally well. I think business is taking a Missouri attitude: They want to see the recovery, and when they see it they will say, "It's here."

The Chair: Mrs Sullivan, you have one minute to get a quick one in.

Mrs Sullivan: I am fascinated with the last response. I am interested that you are placing as much of the impact on the automotive sector as you are in forecasting the 4% recovery. Basically you are saying that if people take advantage of low interest rates and if there is a place for government incentives, it would be in the automotive field, to induce the purchase of new cars. With the number of our cars being manufactured outside of our own domestic economy, is the automotive sector in fact, the continuing place for stimulus that it was, say, in years past?

Mr Vasic: No. As a share of the economy, it is clearly on a secular downtrend. The issue is, what is the swing factor for the recovery? Often it is sectors that are not the largest part of it. If I took the other four fifths of consumer spending, that is, fuels and shoes and haircuts and so on, that is much more important than housing and automobiles put together. But the fact is you are not going to go out and get your hair cut twice a week just to stimulate the economy. The swing factor in this very short-run sense is the auto sector; that is a very important one.

Second, I raised that because it did not seem to be so well known that housing is not doing so badly but autos are, so there are elements of durable spending which are presumably impacted by the same things, the same interest rates, the same consumer confidence, the same consumer incomes, but are acting quite differently. It suggests to me that this problem is not as black and white as has been suggested.

The Chair: Thank you, Mr Vasic, for your presentation. I imagine, if you are out in the hall for a few minutes, committee members can get a chance to ask you a few more questions.

Mr Vasic: Sure. Thank you very much.

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ORGANIZATION

The Chair: I believe there is some other business for this committee. A subcommittee meeting or a whole committee meeting?

Mr Carr: No. The question I was going to ask throughout was the whole direction on the pre-budget hearings—what we want to do. We talked with the clerk before Christmas about the process of having people come in. We will have three days on pre-budget hearings. It was my understanding when we met with Todd that the reason we did not have any more hearings is that the whips and House leaders decided against it during that break, after we decided on the 19th. I understand that is not the case, that there had not been a request from this committee to have any hearings. I am just looking for some type of guidance.

We are going to go into a situation where we come up to a budget, during the economic crisis we are in, having had only three days of public hearings in this committee. If the Treasurer is having his own hearings, with direct input to the Treasurer, then I suspect we will not need any more. I am just looking for some type of guidance so that this committee will at least have heard from the public when we put some ideas and recommendations together. I just throw out this question for both sides; I think Monte last time talked about not feeling there is need for any more hearings, but I just throw it out for the committee to look at. What we should be doing is three days and up and then closing the door on pre-budget hearings. It may be that the Treasurer is having extensive round tables, though I am just not clear on that. So I throw it out for discussion.

The Chair: Any comments?

Mr Sutherland: My only comment would be, I guess, that we have been able to get that extra day. We also said, though, that if any group was not able to come forward and make a formal presentation, we would accept their written presentation on their comments. I am not quite sure what the consensus is of members of the committee, whether they would like to have the committee make a request, if we can, to the House leaders or to the whips that we want an extra week. I guess we could discuss that. We would need to have, and I would hope would have, close to unanimous consent in terms of members of the committee, if they wanted to do something of that nature.

The Chair: I would like to comment. The clerk says there is an open period at the end on Tuesday, the week after next. On Wednesday, February 12, there are two hours in the morning and an hour in the afternoon. On Thursday, February 13, there is committee debate and draft report preparation from 2 to 5, but there are open periods of time in that.

Mr Carr: The reason they are open is because historically what has happened is that some groups have come forward. We did not advertise because we did not have the time slots. I suspect that because of what happened a couple of Tuesdays ago, people realize there is a big problem in this province with the economy. Are we content as a committee to say we are only going to have three days of pre-budget hearings before the budget comes down? If the Treasurer is doing extensive hearings, the government can then say, "We were doing it outside the finance and economics committee," and that is fine. From the public perception, we are saying there is an economic crisis and yet this finance and economics committee will only spend three days hearing submissions from people.

The reason there are not enough people is because, as you know, we were only asked to have five people. Last year I think we heard 60, although that may have included some of the municipalities and universities and so on. So we are talking about two things. I just want to make sure everybody is confident that this committee has done everything for our report. I do not know if David wants to comment. That is my only concern and I just throw it out.

The Chair: David, did you want to comment on this?

Mr Christopherson: I do not know that I have a lot to offer, except to say that I think we need to bear in mind that we have already done the MUSH sector, which is different from what we did last year. You would almost have to include that into our totals, if you want to look at how many groups we met with.

The Treasurer is doing a lot of round table discussions. It is a new process. It will involve a lot of groups. Again, in most cases you are talking umbrella-type representative groups, as opposed to individual groups. We were fairly loose in the past about individual groups. Even local community groups in some cases found their way here to the committee.

If the committee feels we should have more, then by all means we ought to talk about that. As was mentioned by our whip, the public is quite welcome to put in submissions, so they would still have the opportunity to get their messages to us. I was disappointed, quite frankly, that we did not get a chance to follow up on some of your suggestions from last year about doing at least one sectoral visit somewhere onsite. While recognizing that is somewhat symbolic, I agreed with you that there was an important symbolism in going out.

I would just say that if other members of the committee feel we have not got enough time lined up, then by all means let's look at expanding it, but I would add one caution. Recognize that at no point will we ever have seen enough people to satisfy both ourselves and the public, that everybody whom we should and could hear from has

the opportunity. That just will not happen. I am open to suggestions or comments from members of the committee from other parties.

Mrs Y. O'Neill: Mr Chairman, I am going to be on this committee for the next few weeks. Mr Carr keeps talking about three days of meetings. I do not understand.

Mr Carr: Three days with the public.

Mrs Y. O'Neill: Well, these people are not considered public who were here today. These are the experts.

Mr Carr: No, these were the economists giving us a macro versus micro.

Mrs Y. O'Neill: So it is three days next week you are talking about, Monday, Tuesday and Wednesday. Is that correct?

Mr Carr: Yes.

Mrs Y. O'Neill: Okay. I just had to pull myself up to speed.

The Chair: We have not got that list as yet. I was unfamiliar with some of these items also, just coming in as Chair today.

Mr Sutherland: I believe the clerk had indicated there were still three or four organizations that have been asked to come forward but have not confirmed yet that they are going to be coming forward. Correct?

The Chair: Yes. Actually, the schedule would be filled if everyone comes forward who had been asked to come.

Mrs Y. O'Neill: They will be coming in next Wednesday.

Mrs Sullivan: I was going to suggest that the parliamentary assistant may want to take back to the Treasurer a suggestion. Depending on the nature of the interventions made at these so-called round table consultations, if there are formal presentations from the groups which are appearing before the Treasurer and which are not appearing before this committee, perhaps those presentations could be made available to this committee.

As you know, this committee was in fact set up in 1985 by the then-Treasurer to participate in the discussion and deliberations surrounding the creation of the budget. It was intended that this committee should have open access to materials that were put on the table, so far as that was possible, so that its advice could be formulated with full information.

If groups and organizations are continuing to meet the Treasurer behind closed doors, albeit in a different session—and I frankly believe that the Treasurer has to proceed in that way, that there have to be closed-door meetings—but given that he is changing the process, making a big deal of the change in the process, let's see what access we can have to the material he has that the committee, because of a changed format, is not likely to have.

Mr Christopherson: I would just respond that, given the announcement by the Treasurer of the statistics and facts and dollar figures that were released in the recent fiscal document, I think that is evidence of his willingness

to put his actions where his words are. I will speak to the Treasurer about that.

I think it needs to be said that one of the reasons the current Treasurer wanted to make these changes was that there was an awful lot of duplication, where people came to this committee because this was the public arena and they had their chance to talk directly to this very important committee, but also there was this feeling that if you did not get in and talk to the Treasurer at one of those behind-the-door meetings you really were not in the inner loop. When I sat here as a member—and I would also sit over there because Floyd would be scheduled elsewhere—I would be receiving from many groups exactly the same document on behalf of Floyd that we got here. Even the groups acknowledged they did not know if they were really doing anything, but they did not want to risk losing ground if they did not do it.

So there was an attempt, a sincere attempt, on the part of the Treasurer to have this committee doing meaningful work that would add to the work he was doing, as opposed to duplicating it or running a parallel process.

To answer the question directly, I would suggest we send a letter from the committee directly to the Treasurer. I will speak to him, but let's formalize it. I know that he is very sincere in his wish to have this committee as up to speed as he can possibly keep it vis-à-vis the information he is receiving and the kinds of exchanges that are taking place.

The Chair: The thing is, David, that if they appeared before this committee rather than before the Treasurer, the Treasurer would still have the written report and the documentation and the pre-budget consultation. So maybe it is

an item to talk to the Treasurer about: coming forward before this committee.

Mr Christopherson: I agree with what you are saying, Mr Chair. My sense from the question by Mrs Sullivan was that perhaps we would be receiving briefs that the Treasurer would not, whereas they would indeed be forwarded as part of our background, or at least be made available to him. However, the question was: Are there briefs being received by the Treasurer that perhaps we may not be getting in the course of our business? That is where I think we ought to address our letter. I am just saying that I will complement that request with a personal discussion with Floyd.

Mr Carr: I agree with David. The one thing we do not want to do is to duplicate. The only thing I am saying is that by trying to say we might not duplicate, some people might slip through and the perception might be that we do not get them. So I think that is a perfect idea. We may have even made that request when the Treasurer was in here. We said, "If you want us, could we have the dates of the round tables?" If I remember correctly, he said, "If you want to participate and come in and sit in, you may."

If we could just formally tie that up a little bit—I know his officials were scrambling to write things down that day. My point is that when we do not formally ask for things, sometimes they can slip through. Let's not duplicate. Let's formally ask the Treasurer what some of the dates would be. If he could forward the information, then everybody will be covered.

The Chair: Fine. I will see that a letter is sent from the committee here.

Okay, that is all.

The committee adjourned at 1623.

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Le jeudi 30 janvier 1992

Comité permanent des finances et des affaires économiques

Consultations prébudgétaires



Chair: Ron Hansen
Clerk: Todd Decker

Président : Ron Hansen
Greffier : Todd Decker

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LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday 30 January 1992

The committee met at 1007 in room 228.

PRE-BUDGET CONSULTATIONS

The Vice-Chair: We will get this meeting started today. This is our second day of hearings in the pre-budget consultations. We are hearing from the economists in terms of giving us some idea of their projections and how they think both the Canadian and Ontario economies are going to be for the upcoming year.

ROYAL BANK OF CANADA

The Vice-Chair: Our first presentation today is by the Royal Bank of Canada, Mark Chandler and Andrew Spence. You have about an hour for your presentation. I know all the members are anxious to ask questions, so we ask that you leave some of that time for them to ask some questions.

Mr Chandler: I will talk for hopefully just about 20 minutes on the presentation itself and then we will get down to some questions. After one full day and another day of talk by economists coming up, I believe you would prefer to ask some questions rather than hear what may end up being the same old thing again.

What I would like to do is to start off by giving you a brief outline on how we see things, the major points for Ontario. It is more issues-related. We have a forecast with all the details for all the indicators at the back of the hand-out I have given out, but I think it is more important to get a grasp of some of the major issues facing the province from an economic standpoint. I will just start by putting out a couple of points.

First, we believe Ontario has had a problem of weak demand and historically high real interest rates, but this is also a problem that is shared, to some extent, internationally. We are not isolated in facing these factors.

The second point is that while we have had cyclical weakness in Ontario, it has been about on a par with what we have seen in 1981-82. That is definitely not the case for the nation as a whole, where it is roughly half as bad as what we saw in 1981-82. Clearly, Ontario is facing a weaker period than the nation as a whole. That is also true if you look at it on an industry-by-industry basis.

We think the weak recovery and the unexpected depth of the recession in Ontario can be tied to a whole raft of events and policies that require adjustment that is costly, so it is not just the cyclical factors; it is also the structural factors.

1010

One other thing to keep in mind is that during a period of upheaval like this there are challenges and opportunities. It is important to keep in mind that when we see job losses, they are net job losses. There are more jobs lost than what is shown and there are also jobs created. In fact,

if you look at some studies done by Statscan, they showed that in one of our best years, 1986, one in five workers left his job, and at that point the layoff rate for the nation as a whole was 16.5%. Even in very good times we see layoffs and we see jobs lost. The point is that we also see jobs created and I think that is really one of the important points we should keep in mind for Ontario. Our policies should be directed toward job creation and making sure there is a good atmosphere for creating additional employment in the future.

Nevertheless, the way I see things right now is that the groundwork has been laid for sustained economic recovery. We do not look for a very good 1992 for Ontario; in fact it is not as good as Treasury and Economics has put forward. However, we think that if you start looking out beyond, in the medium term we can get solid, low-inflation growth for both Ontario and the country as a whole. This will be matched with fairly low interest rates and decent productivity growth.

What are the appropriate policies for the Ontario government under these circumstances? We agree there should be adequate recognition that disruptive structural change requires accommodation. In this context there should be funds available for job retraining, etc. However, the overall thrust of fiscal policy should not be based towards an aggressive widening of the deficit. The structural problems are not a problem with demand. They are problems that are in the shifting of jobs from one sector to another in the economy.

Once again we feel there is a sound basis being drawn for sustainable recovery. This recovery is threatened if future tax liabilities are deemed to be too high. The federal government has learned some very costly lessons on this front, watching its debt charges take up an ever-increasing portion of the budget at the expense of program expenditures. Ontario should be wary of falling into this same trap.

Those are the key points of the talk.

What I would like to do now is just go through the handout. I believe all of you have a handout in front of you. If we can go through that just on a chart-by-chart basis, it provides some of the support for the points I have made. We will start at the beginning. Chart 1 is essentially what I have just outlined. For the next year or two years some of the key points for Ontario are: What is the pace of the recovery going to be like? What will be the policy environment we are going to see in terms of monetary and fiscal policies? We think cost control is going to be a big factor internationally, throughout the nation and also within the province. Political stability is also a factor. That is not only true with what is happening on our own constitutional front; we also have a US presidential election this fall and the UK election in the spring. Whether we like it or not, these tend to have an effect on our own environment, most directly through financial markets.

Chart 2 shows what has happened in terms of the Organization for Economic Co-operation and Development growth and inflation. It shows that the 24 largest industrialized countries in the world are also going through a period of slow growth, the slowest in about a decade. Ontario is not alone in that sense. It has also been the case that with slow growth in the industrialized world we have seen inflation start to improve. The OECD forecast for 1992 is 2.2% growth, well below what we saw through the mid-1980s but an improvement from 1991. The world as a whole is also facing weak demand and, typically, lower inflation.

If you turn to charts 3 and 4 right now, they also serve to support these points. In particular, chart 3 shows that clearly Canada has had a problem in terms of high interest rates. If you look at real interest rates, though, long-term interest rates, they are not too different from what you see in the other G-7 countries. Indeed, it has been that case through most of the middle part of the 1980s and right up through 1991. We see in other countries, not just in Canada, and in other jurisdictions, not just in Ontario, that they are being faced with a condition of weak demand and, historically, relatively high real interest rates. That is the international setting.

If we now look at it from a cyclical standpoint, how is Canada faring, and does it compare with what we have seen in the US? Chart 4 has a little table that shows what average recessions would typically look like and what this one looks like. What it shows is that for the nation as a whole, in Canada the output loss, peak to trough, is 2.8%. That is about half of what you would typically expect to see in a recession. As I said earlier, Ontario is facing a worse situation than that. In the US it has been a bit of a different situation. They have had a relatively shallow recession compared to previous recessions.

What all that means is at the bottom. We have the amount of slack, if you like, in the economy. The last line in that chart is the estimated output gap, where we are now producing now and where we could be if we carried along in our trend growth rate. Canada is about 6% below potential right now and the US about 3%. We have much more slack in the economy, and that is keeping downward pressure on inflation in Canada more so than in the US. For our outlook, what that means is that as we grow out of this slow period we see that inflation has the chance to re-emerge in the US, but we do not think that will be such a big issue here in Canada.

Charts 5 and 6 show how that has really affected Ontario over this past cycle. Chart 5 shows the path of employment from the peak prior to the recession carried on 24 months into it. For 1981-82 that is shown by the solid line, and the dotted line shows what has happened in the most recent recession. As you can see, in terms of employment we have seen a very similar pattern emerge. I think that is roughly true for the province as a whole, not just unemployment but if you look at other indicators. For us this decline has been about what we saw in 1981-82. It has good and bad points about it. We know 1981-82 was very rough. We also know that we ended up getting out of there

to post one of the strongest growth periods in the province's history.

The unemployment rate shows another indication of how Ontario has fared through all this compared to the other provinces. We are now at a point, with the unemployment rate in Ontario at 9.7% and the national rate at 10.3%, where we are not too much different in the nation. That is a big difference from what we saw through the mid-1980s where Ontario reaped most of the benefits of expansion during that period. The other provinces participated, but to a lesser degree. We did very well in the boom period; we are hurting more in the bust period. That is a very cryptic way of putting it.

Charts 7 and 8 show once again what kind of cyclical factors are at play. I focus on this because we all know that Ontario has a very important manufacturing sector that is going through a lot of problems right now. That is typically thought of as a cyclical industry. If you look at what has happened in the nation as a whole in the cyclical industries—we define those as manufacturing, wholesaling, retail, construction and transportation—those have not come back with the same vigour that we saw in 1983. Something is wrong there. Our cyclical industries have not responded to the very sharp decline we have seen in interest rates. They have not responded as they did in 1983. The non-cyclical industries have performed about as you would expect through the boom period. They held up a little better than what we expected through the 1990-91 recession.

Chart 8 shows a similar sort of picture, but with numbers. It shows what happened in terms of output loss in 1981-83 in the cyclical sectors and what we have seen in the current recession. If you look for example for the cyclical sectors as a whole, in 1981-83 they lost 13% of their output through the recession period. However, as we headed out into the recovery period, the roughly eight months or so that is shown there, they had already recouped 8.5%. They had come back about two thirds of the way.

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We saw for our cyclical sectors this time around that, with the exception of some sectors, they were not hit as badly in 1981-82, but they really have not come back. We have only gained back about a quarter of what we lost. The cyclical sectors are having a hard time getting back up on their feet. The non-cyclical sectors have a similar sort of pattern. We were not as badly hurt in the non-cyclical sectors in the current recession compared to 1981-82 and we have not come back as strongly. We believe, therefore, that a case can be made that there are some structural factors at play.

If you look at chart 9, it shows what has happened in one of the cyclical sectors: manufacturing in Ontario. What happened last time around in the recession and what happened this time around? Once again it reinforces what we saw for employment in the whole province. That is, 1981-82 looks a lot like the current recession.

We said there were some structural factors at play. Where are those forces coming from? We think there are at least three or four we can put our finger on. One of them is the effect of the free trade agreement and increased global pressures. That is a bit of a catchword but really what it

means is that it is a very competitive environment, tough to get strong sales increases. A lot of companies are focusing on global market share and it is a very tough environment for a lot of businesses out there.

The second factor is deregulation and privatization. We have seen that very recently, in the papers this morning. We also have seen it from the federal government in terms of privatization, but we have seen it abroad too. It is unfair to think that will not affect us. I would say there is a good case that deregulation in the United States has affected our trucking industry, for example. These are structural factors that have made it harder for Ontario businesses to compete in and beyond the cyclical factors.

Low commodity prices are also a factor. International focus on price stability: we have seen that the world as a whole has very high real interest rates. There have been very strong capital demands through the 1980s. As well, most central banks in the industrialized countries are focusing on a low rate of inflation, so there have been, compared to past times in history, fairly high real interest rates. There have also been a few changes of opinion on environmental issues over the last decade. What we have seen is that this has definitely made businesses have to go through a lot of costly adjustment in terms of what the environmental impact of their business is. It was something that was probably long in coming, but coming as it does right now has added another cost of doing business.

Finally, just the relative price change to the GST. The GST came early last year at a time when businesses were facing a condition of weak demand. There was a lot of uncertainty involved with it, a lot of uncertainty in the pricing decision and a lot of uncertainty in terms of how you adjust your books and how you adjust your prices. All these things have served to affect how businesses have been managing over the last year and a half or so.

The rest of these charts just try to support that. If you look at chart 11, it shows what is happening to commodity prices. For Canada, commodity prices are typically very important. For Ontario they are also important. Base metal prices make a big impact in northern Ontario. They have fallen off very sharply from their peaks in 1988-89. There are some signs of recovery. In fact, we think that will continue on for the remainder of this year, but they will not get back to the levels we saw at that period of time: 1988-89. We have seen base metal, wheat and lumber prices start to pick up recently. Livestock prices remain weak. We do not expect a very strong global recovery, so commodity prices in general are likely not to rebound very quickly.

Chart 12 shows what has happened to the share of industrial employment in total employment. This is important because it addresses the issue of why Ontario has lost manufacturing jobs. A short answer to that is that everybody in the world is losing manufacturing jobs. Manufacturing as a percentage of total employment is falling in all the industrialized countries. If you look at the pattern from 1970 to 1990, Canada has actually held up fairly well compared to most countries: the United Kingdom, United States and Germany have all fared worse over this period. Japan is the only one that has fared better in terms of maintaining jobs in the industrial sector as a share of total

employment. That is one of the things that is happening in a structural sense.

Chart 13 shows another reason why manufacturing in Ontario is not faring as well as it might have. This shows what has happened to relative cost trends between Canada, the US and G-7 nations over the last decade or so. Productivity growth in Canada has been well below both the US and the G-7 nations: 1.4% versus 3% to 3.8% in the United States and other G-7 countries. At the same time our wages have increased at more rapid rate: 6.8% over this period. Clearly, if you look at unit labour costs, which are essentially the sum of those two, you have unit labour costs in Canada running at an annualized pace of 5.4% over that period, and that compares with 2.1% in the United States, our major competitor, and 2.8% in other G-7 countries.

You could say that if you had a declining currency you could offset that. But in fact if you look, in US dollar terms, at what it has meant for competing in global markets, Canada has had roughly the same 5.4% unit labour cost increase. Remember, we are looking at the period 1979 to 1990, and right now the dollar has gone through a sharp devaluation through to 86 cents and a sharp appreciation throughout. So we missed that cycle.

What it shows on average over that period is that our unit labour costs are considerably higher than our major competitors' if you put them on common currency terms. Clearly that is having a negative impact in terms of the competitiveness of our manufacturing sector.

Chart 14 shows some other problems in one of our cyclical sectors, the retailing sector. It shows what has happened to same-day automobile trips to the United States and related expenditures just of those same-day trips, and that is our own estimate. They have gone up continually from 1987 to 1991. Just recently we have seen a bit of a down-tick and so have the related expenditures. They have averaged 0.7% in terms of total retail sales for the nation as a whole, but that is a little bit misleading. That means a lot of money. If you apply it to retail sales, the average amount in Canada is about \$1.5 billion. So it is not a small problem, and in particular it is very much a local and regional problem. If you talked to the retailers in southern Ontario they would tell you it is much more of a problem than shown by these figures here.

Why has that occurred? One of the reasons it has occurred, if you look at Chart 15, is that the Canadian dollar right now, we think, is overvalued compared to where it should be. Our purchasing power parity, the long-run competitive value of the Canadian dollar, we feel, is about 80 cents. Right now it is trading at about 85.5 cents. It is getting toward that 80-cent level. It is getting there in a hurry. Really, it is overvalued. That has hurt our retailers. It has also hurt our manufacturers just in the last five years. We think there is room for a lower dollar but not much. We think the real way we are going to end up getting back on a more competitive footing is for our underlying cost structures to adjust to make that a more realistic value for the dollar, and I will get to that later.

Chart 16 shows another symptom, if you like, of this whole issue of whether it is structural or whether it is

cyclical. Ontario layoffs: This chart shows the number of employees laid off in thousands, and this is just for groups of employees of 50 or more. It shows which percentage is permanent, which are due to plant closures. What it shows is that we see much more of the layoffs this time around associated with plant closures compared to what we saw in 1981, 1982 and 1983. Once again, we think that signals that it is not a temporary downturn in demand, rather that there are a lot of structural problems and a very hard time for many manufacturing and other businesses in Ontario competing, given the current cost structure.

Charts 17 and 18 show—it is a bit of a forward-looking thing—what has happened in terms of investment relative to the size of the economy: in the United States, Canada and G-7 nations in the top graph and in the bottom graph, Chart 18, it shows what has happened to fixed investment in Ontario relative to Canada.

What the top chart shows is that it has not been the case where Canada has not invested enough over the last several years to get the productivity gains and the improved standard of living we require. In fact, if you compare what Canada has shown over the last decade with what we have seen in the United States, Canada has been investing relatively more, particularly so in investment in machinery and equipment, with the hope that, in the future, that would pay off in productivity gains, lower inflation and a better standard of living.

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In the United States, that trend continues to be on the downcourse and I think that was one of the reasons we saw in President Bush's address earlier this week that there was such a focus on what is he going to do in terms of investment tax credits and research and development tax credits and so on. Investment in the United States is a problem. It has not been as much of a problem in Canada.

Chart 18 shows the same thing: Ontario versus Canada. The levels are a bit misleading in terms of how much Ontario has invested relative to the size of its economy, but the trend there is clear. What we saw in 1985 through 1989 was some very good investment in this province with the expectation that it would pay off down the road in some of the things I just mentioned. But since that time, 1988 through 1990, we have started to see some down-tick. Our forecast is that it is going to say fairly depressed to 1992-1993 and really we think this is one area where Ontario should be very concerned. If we do not get the level of investment we had in the past, we are going to see a lack of new job creation. We are going to see an erosion of real incomes, an erosion of standard of living and an erosion of productivity. We view this as a danger sign. The lights are flashing amber.

Chart 19 is a study that was put out by the University of Western Ontario's Paul Bergman. He surveyed Ontario's 2000 largest firms and asked of those that have no plans to invest in Ontario what the reasons were. The top five reasons are listed there. A lot of times these surveys are used as a sounding board and it is an easy way to show a protest vote, so I would not put too much stock in a lot of the results. But he does cover a large sample. Clearly what they are saying is that there are some concerns about

future investment related to Ontario's policies as they relate to wage protection, size of the deficit, future tax burden and some of the things that are being done in terms of employment equity. This shows once again that there are some warning signals in terms of what is happening on the investment front.

Nevertheless, where we stand right now is, given the past levels of investment, given the weak demand and so on, we think we are heading into a period of time when we are going to see consumer prices and inflation at very low levels, the kind of levels we saw in the late sixties. As a result, what we expect to follow is considerably lower interest rates. Hopefully that will pave the road for some up-tick in investment in the future.

What does that mean for interest rates? We have low inflation. The real component of that is affected by other factors: demand for capital worldwide, the pace of recovery worldwide—those are all factors that affect the real component of interest rates. We see those coming down from current levels, but really agonizingly slowly. For Canada: a 3.5% real rate by the middle part of this decade. But if you start adding it up—essentially a 2% inflation rate, 3.5% real rate—we can expect to see long-term interest rates at 5.5%. If we get that, and the key to getting it is to make sure we have the appropriate policies, then we can expect that investment will start to pick up again and some of the uncertainty in the investment decision will be alleviated.

What does that mean in the very short term for interest rates? We think the path is still down. If you look at chart 22, interest rates, we see the prime bottoming out at 7%. We see the one-year mortgage rate going down to 7.5%, the five-year—still a little slow in improving—down to 9.5% by mid-year. It could get to 9% if we see the Canadian dollar settle down and we continue to have that very good inflation performance.

Chart 23 shows some of the issues involved in the Canadian dollar. We have seen the sell-off in the Canadian dollar recently. We think it is overvalued relative to its long-run trend, but to be honest, that can happen for extended periods of time. It has happened across other countries for extended periods of time. It has happened across our own country for extended periods of time. If you look at 1985 to 1987, the Canadian dollar was significantly undervalued for an extended period of time, so this is the long-run guide.

What about the long-run factors, though? How are they going to affect the movement of the Canadian dollar? What we see is that if we get a better inflation performance—and we think Canada will end up being a percentage point better than the United States in terms of inflation and essentially that will mean a narrowing of the interest differentials to zero—that will allow the underlying competitive value of the dollar—the level at which we can compete on an equal footing with the United States—to move up from 80 cents now to 90 cents by the middle part of the decade.

Clearly there is hope that the Canadian dollar, at current levels, can be more competitive. We think a combination of things will happen: The Canadian dollar will stay relatively weak compared to recently—it stands right now at about 85.5 cents—and slowly we will get the underlying improvement

in the cost structure that will make our businesses more competitive.

The second line, PPP2 on the bottom here, shows what happens if we fall off the wagon and go back to the same inflation performance against the United States we have had in the last decade. That is essentially about 0.5 percentage points worse. If that is the case, then the Canadian dollar can be expected to tumble quite dramatically. That is something to keep an eye on in the future. Once again, our best guess is that the Canadian dollar will stick very close to these levels throughout the next couple of years.

Chart 24 shows our path for growth in the Canadian economy and the United States economy: very weak in the first half, picking up in the second half. Annual growth for Canada this year is 2%, but that masks a pretty good improvement in the second half of the year where we get growth rates in the 3.5% to 4% range—end growth of 3.8% to 4% in 1993.

The United States follows a similar pattern. We have seen growth estimates from the White House this week that suggest maybe our forecast for the United States is a little more robust than theirs. Once again in the United States we still see a very slow recovery. The White House does not look for it to improve very much. However, the good news is that yesterday Chairman Greenspan of the Federal Reserve is a bit more optimistic on the prospects of growth in the second half of this year.

What about our medium-term outlook? I will just talk very briefly on this, charts 25 and beyond. Assuming a number of things—preservation of national unity, full implementation of the free trade agreement, continued reduction of debts and deficits—we could expect to see that Canada, on average, will begin to grow in the 3%-per-year range, inflation in the 2% to 2.5% range. We have 2.6% on our forecast, with unemployment down to 7.2% and interest rates quite low compared to historical averages.

What does this mean for Ontario? We expect Ontario will have a very weak year this year compared to what we saw in the middle 1980s. We are seeing 1.7% in 1992. This is a bit weaker than the consensus, I believe. It will bounce back in 1993 to 3.8%. Charts 27 and 28 show a comparison of our own forecast against those of Treasury and Economics. Real growth domestic product this year: We plug it at 1.7%, they are looking at 2.2%. The inflation picture is much the same. We are looking for a little stronger employment growth, but to be honest I think that is a little optimistic at the moment. We are also looking for a little stronger labour force growth, so essentially our unemployment rate is very much the same as that of Treasury and Economics.

For 1993 we think 4.8% plugged by Treasury and Economics is a little optimistic as well. We are looking for 3.8%, which is still a very good growth rate. Inflation in both cases is expected to be very low. Employment: Once again we think Treasury and Economics is little bit on the optimistic side. One of the reasons is that the structural factors I talked about earlier are still very much in play and will prevent the typical cyclical rebound. So we are a little bit on the pessimistic side, if you like.

Charts 29 and 30 tell the story of what is happening in terms of Ontario's budget surplus and deficit. I will not go through these in detail; I am sure you know the story quite intimately. The point in terms of the budget deficit: We think it is too high. More so than the current year, we think a path has to be set towards getting it down towards a balanced situation in the out years. I think that would go a long way to helping ease some fears in financial markets and the business community—not the current-year deficit, but that the path towards a lower deficit is in place.

The \$14.3 billion came as a shock, I think, to a lot of people. Clearly the financial markets are concerned and it was reflected, of course, in what we saw in the Standard and Poor's credit watch announcement.

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Chart 30 shows why we have been there. That is the story in revenue and expenditures. The dropoff we saw in revenues: Treasury and Economics tells us this is the first time it has happened since 1945. A consecutive drop again this year, which they are projecting is an historical first for the province, not one that, I think, they would like to point to with any kind of pride. That drop made it very difficult for the current administration to try and put through the policies it wants, but you have to look at it in context as well. Through the 1980s we had 11% annual revenue growth in this province and that is unheard of. If you compare that with any other jurisdiction, I think you would have a hard time trying to get anything comparable.

We are in a very tough position right now and it really ties our hands in terms of trying to put through any counter-cyclical policies. We do not want to be in that position the next time this happens, and it will happen again some time.

Charts 31 and 32 tell us about the dangers, of course, if you do this. This shows the debt burden per capita. For somebody living in Ontario the federal government in years past has saddled Ontario individuals with a debt of roughly \$15,500 per capita. Ontario's portion of that debt has risen to about \$5,000 per capita. People are more forward-looking, perhaps, than we give them credit for. They realize that the debt burden is future tax liabilities, and I think that is one of the reasons we are not seeing the consumer come back as sharply as we could anticipate in this state of the business cycle.

Charts 32 and 33 show what has happened in a competitive sense in terms of tax revenue and expenditures between Canada and the US. This is total government taxes and revenues relative to the size of the national economy. Canada and the US were roughly similar in 1965. A large gap has opened up between Canada and the US. In and of itself that need not be bad if it goes towards very efficient programs put forward by the government sector. If it goes through in building the infrastructure, that is a higher tax rate or tax level; it means nothing if it is done efficiently.

Chart 33, though, shows the problems of having big debts. It has not gone to general spending; it has not gone to social development; it has not gone to business development. The single biggest component and one that totally accounts for that rise in tax revenue has been interest costs on the debt. Clearly this is an old story, but you end up

falling into a debt trap where you cannot put forward the programs you want in the future if you are paying for debts put forward in the past.

Chart 34 shows the federal government learned that lesson at a big expense through the 1970s and early 1980s and it is paying for it now. Ontario, on the other hand, because of very strong revenue growth, did not have to deal with that. They will have to deal with it in the future. Other provinces have seen their debt charges relative to revenues rise.

We are getting towards the end right now. What does that mean? In terms of the risk to the forecast—charts 35 and 36—the pace of the recovery is the single most important factor for Ontario right now. Budgetary actions should be directed to keep a good eye on what is happening in investment in the province and what can be done to encourage it. Inflation momentum is down and will remain down. We have a lot of slack in the economy.

Political factors are a consideration. Once again, the constitutional issue, which we have not delved into, is a big question mark. Clearly you can make a very good case that it is having a depressing impact on investment currently.

There are financial strains in the business sector, in government and the banking sector as well. In the US, what we have seen—of course our interest rates are very closely linked to the US. The Federal Deposit Insurance Corp in the US expects four bank failures a week this year. That is the government institution. Outside estimators suggest it may be as high as eight banks per week this year.

Clearly the banking problem in the US has not gone away and could lead to a restriction in credit down there still, something that once again the President addressed in his State of the Union address, that may retard growth in the recovery period. So it is a question mark to keep an eye on as well.

In summary, we see a sluggish recovery, but a recovery for Ontario and Canada. Ontario comes out weaker than in 1983. I do not know if it is poised for as strong a growth as we saw in 1985 or the middle and part of the 1980s, anyway, in Ontario. In part because the US is coming out of it slowly, the rest of the industrialized countries are coming out of it slowly. Interest rates are down, but interest rates in and of themselves will not pull us out of this, and there is a lot of uncertainty out there. We are seeing that right now with volatility in the Canadian dollar over the last few days and volatility in interest rates. Those, once again, affect the investment decision.

As a final note, I have attached in the back a very detailed outlook from our group in Montreal that puts together the provincial outlook on what is going to happen for specific indicators in Ontario. You can read that at your leisure. There is also a table of key economic indicators from 1984 to 1993 in Ontario and Canada. Finally, on the last page we see the world: interest rates and exchange rates for Germany, Japan, the United Kingdom and a detailed expenditure side forecast for the US and Canada.

I talked for longer than I said I would, but I will turn it over now, if you like, for questions.

The Vice-Chair: We will start with the opposition party. Mr Phillips, you have approximately six minutes altogether.

Mr Phillips: Frankly, you are more pessimistic than the other people we have seen, although kind of in line with the treasury at 1.7%. If I could comment on your employment figures back in 1982, I sense we are in a different kind of recession and that plotting the curves is not going to give us the future.

I am concerned about what fundamentals will pull us out of this thing. You touched on that a little bit in your document, but there are certain things I think we can do, like wage restraints and getting our wages more in line with other nations. There are other things we are going to have difficulty dealing with, perhaps, such as the debt servicing costs.

My question to you in the banking business: Are you seeing any movement towards investment outside the country by people who do business with you? The numbers you have shown us here today in terms of investment are a little different than we have heard from the Premier. The Premier said Ontario's investment is going up and that Ontario is doing better than it has ever done as a proportion of the investment. Those are my two questions for you: Have you any sense, in real terms, of whether investment is leaving Ontario and Canada? Second, what numbers can you give us that would be helpful in determining what investment is going on right now in Ontario?

Mr Chandler: In terms of the first question, what have we heard from our clients and our customers, we have had a lot of talks about them. A lot of them are potentially moving; a lot of them have moved. Where we see it most is the very mobile individuals. To be honest, we have heard from some people in our private banking group of high-wealth individuals who are very worried about the situation in Ontario, have been in Ontario for a long time and are considering moving or have moved. We are hearing a lot of that.

On a very personal and anecdotal basis, I see a lot of young families in the same position. This is not tax policy or economic policy, but there is the quality-of-life argument. One person in our own office is moving out to Saskatchewan. It is a big jump, I guess, from Toronto to Saskatchewan, but once again it is quality-of-life argument: the time it takes to commute, tax burdens and what is available for children growing up in that region.

So, yes, we have heard it on a very anecdotal basis. There are very few good indicators, even for the nation as a whole, in terms of current investment. Statscan does not do a very good job because it is tough getting current investment levels, so it does a once-a-year survey. That survey was not very appealing for Ontario.

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Other informal surveys ask, if you look at large company surveys, "Are you thinking, in the next five years, of adding things?" Those are, once again, quite negative. Some of those are in my document.

In the past Ontario has done very well. We have seen it in the mid-1980s with a lot of the car companies putting a

lot of money into the Ontario economy for investment, but if you look at what is coming out of the car companies now, they clearly are not as keen to see that same kind of investment proceed in the future. So I have a lot of concerns both on the personal side, in terms of what is happening and the people who are questioning whether it is worth their moving or not, and on the business side. What are we seeing in aggregate investment numbers? Everything I have seen suggests there are some problems out there.

Mrs Sullivan: Do I have any time?

The Vice-Chair: About two or three minutes.

Mr Phillips: Go ahead, Barb. I have one quick one just on where you see the job growth coming, because you are projecting, I guess, an increase of about 65,000 in the number of jobs in the province. In what sectors do you see that?

Mr Chandler: We will see an improvement in the cyclical sectors, so I think there is a chance that you could see manufacturing come back from very low levels. I think there is also a chance that you could see it in some of the finance sectors, although I have put a question mark beside that. I know we are not looking aggressively.

Mr Phillips: Sorry, I wanted Barbara to put a question in here. Thank you.

Mrs Sullivan: Actually, my question follows from those presented by Mr Phillips. We too are very concerned about the confidence in the economy. That is affecting capital investment choices in a highly global market and we see that as a necessity, in fact, in the future for job creation. I wonder what incentives you see as likely to overcome some of the negative factors that might be appropriate for government initiatives.

Mr Chandler: I think one of the first things that always tends to go up is what is going to happen in the labour legislation policy in Ontario. That shows from that survey, but other surveys have shown that same type of thing. People do not mind. A lot of businesses have invested in here knowing it is a fairly high-wage area. They might be disappointed in the trends over the last couple of years. This morning we saw the employment-in-hours figures and they showed that in industrial aggregate jobs, November over November for Ontario, we lost 8.9% of the jobs, and yet our average weekly earnings went up at 5.8%. Those who have jobs are doing okay; for those who do not, there is not much investment giving much hope.

What can you do? Certainly I think we should take the initiative in the public sector that wage restraint is the order of the day. We had a very sharp increase in public sector employment and wage growth in the last several years. We have seen some paring in the private sector and, to be honest, I do not think we have seen it to the same degree in the public sector. So I think that is also another area for initiative.

Keep an eye on what businesses are telling you when you survey them, because if I could add up eight tax rates here and nine tax rates in this state and 11 tax rates in this province and say, "Look, you are better off," but they say,

"I don't feel better off," that is the important thing when they invest. So talk to them: "Why don't you feel better off?"

Mr Carr: I was very interested in chart 34, "Government Debt Charges." In your last line you said, "Ontario is in danger of falling into this same trap." I think we have. When you look at the Treasurer's own document on page 14, \$4.9 billion was what we do in public debt interest, and his projection, with no change, goes to \$6.1 billion. The \$4.9 billion is historically very high.

You say at chart 29 that you do not believe government spending is a viable option, although you may have heard the Treasurer today, who is going to speak with the Minister of Finance, saying that is what they should be doing. In all fairness, he is not saying he is going to do it; he is asking somebody else to do it. It is easier to ask somebody else to do it. My question to you is this: Knowing the situation the way it is now, knowing what he thinks, do you think he should run up the deficit in terms of government spending to try and stimulate the economy?

Mr Chandler: I do not think \$14.3 billion is right. Personally, I think he went about it the wrong way in the last budget. I think money has to be available for job retraining. Making the decisions to fall on the part of the school boards and the hospital administrations and so on, cutting them back to 1% growth when there is 9.9% in total for the province, I do not think is setting a good leadership example.

But I think where it had to come was in the government employment sector, the 90,000 jobs or so that are strictly Ontario civil service. When times were good, there was a lot of increase in that sector and a lot of bidding with the private sector to fill those jobs. The private sector is hurting a lot. People have lost their jobs, there are risk and return tradeoffs. I do not think the wage structure in the public sector really adequately reflected the risk and return tradeoffs. They are fairly safe jobs, and with that security should come a little bit lower wages. Anyway, I think that is something they could have done.

So what should he do at this stage? I would have liked to see a freeze, point-blank, in terms of the employment part, the wage-salary part of running each ministry.

Mr Carr: Just to go further, as you know, about a year or so ago we talked about doing that, putting a cap on the civil service. They said you could not do it on the backs of the civil servants, and of course a year later they did it anyway. All that happened was that we lost \$1 billion, which is what it would have cost. That is \$1 billion, with a "b."

Because they have limited the transfer payments to school boards to 1%, for example, what happens is the school boards have already negotiated contracts of 5.6% or 5.8%, depending on the municipality and so on. What we are calling for is saying, "Okay, we only gave you 1%; therefore let's have a provincial wage mandate saying the teachers will only get 1% this year," again falling in line with what you say. Would you advocate that for the government?

Mr Chandler: It sounds reasonable to me. You have to look at all the details, but I think that is the correct direction to go. You are really putting the school boards in a tough situation there. I think this kind of idea about wage restraints has to be shown to be coming across the whole

province. You have to be honest. I have heard this figure at second hand, but we pay our teachers in terms that they have a better standard of living than anywhere else in the world, and I am not sure the pupils we put out or the quality of the education we get is the best in the world if you look at objective measures.

So it is not just teachers and I am not picking on them, but I think you have to see some kind of reality set in, in terms of wage structures. A high school principal makes \$90,000 a year. That is if you look at the contract settlements and Ontario wage settlements. Maybe that is what the marketplace deems, but I do not know if the marketplace is acting correctly.

Mr Carr: I agree.

Mr B. Ward: Your projections are way off compared to what we heard yesterday from other banking institutions and economists. I guess, in the words of Mr Phillips, we will not know who is right until next year, when we see whether the projections are accurate or not. Somehow I think we may fall somewhere in the middle of what we heard yesterday and what we are hearing from you today.

At chart 29 you mention that Ontario is particularly hamstrung because of the shortfall, ie, deficit. Of course you are aware from reading the Treasurer's document that this number is unacceptable and will be coming down. But it seems that when we look to America we see tremendous debt, tremendous potential for failures in the banking system. I believe their debt is at a postwar high as a percentage of their gross domestic product, and yet it seems economists on both sides of the border applauded Bush's initiatives in trying to stimulate their economy. Some said he did not go far enough, but generally it was felt that there was room for movement in America from a fiscal standpoint. Yet our national debt and deficits and our provincial deficit, in your opinion, do not allow any room for movement. So in your opinion, why is there room for movement in America?

Mr Chandler: I will tell you what the difference is. The difference is, we have spent more in the past. If you look at public debt relative to gross domestic product and if you look at just the federal government sector in the United States, it is about 60%. In Canada it is about 60%. If you add in state and local in the United States, it is still 60%. State and local governments do not run big debts in the United States. In Canada, if you add in all the debt by provinces and local, you have 80% of GDP. The difference between how we fare compared to the United States with regard to our debt level relative to the size of our economy is that we are worse by about 20%. That is the accumulated deficit outside the federal government sector. So I would make the point that we are more hamstrung than they are.

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The budget deficit this year for the United States is at a postwar high of around 6% of its GDP. Ours will be about 6%.

Mr B. Ward: That is not what I read.

Mr Chandler: If you take \$31.5 billion at the federal level and \$14.3 billion—

Mr B. Ward: Which is not what it is.

Mr Chandler: No, we do not think we will get to \$14.3 billion, but let's say that was what we ended up with. Then if you look at Ontario, the deficit this year would be 9.7% of GDP. Clearly, by any kind of arbitrary measure like that, we have expanded a lot. We are having fiscal stimulus. We have done more in the past, which makes it hard to do more in the future because of the amount of money we are paying out in terms of debt payments relative to revenues.

Mr Jamison: My question is one that deals with deficits also and projections. This whole session is set up basically so the Treasurer and Minister of Economics can have some further input from other organizations as to which direction the economy will go.

I was here last year and every banker and economic adviser we talked to was simply wrong in his estimation on the duration of the recession and how we would come out of it. Having said that—I asked this question yesterday and made some comments—the governor of New York state has just indicated that its operating deficit this year will be \$6 billion. That is a state everyone seems to be moving to to do business as far as some people are concerned, and they do not have the social infrastructure and so forth. Your projections are different than others, but you are saying basically the same thing, that we are going to come out of it. What makes you more certain this year than you were last year?

Mr Chandler: I will tell you what we did last year. We had negative growth. We thought we would see negative growth this year, negative 0.6% or 0.8% or something. Can I be more sure this year? No. Will we be wrong? Yes, you can guarantee that we will be wrong because of the state of forecasting. Will we be more wrong than anybody else over any extended period of time? No. This is an exercise in forecasting. For year-to-year GDP or year-to-year employment, a consensus forecast works just as well. But that is not the point. Really we should be looking at what are the appropriate policies for the next five years, not just, "next year, is it going to be 0.2% or 0.3%?" I think that is what we should be targeting for. We think it is going to be weak. If we are wrong and we get surprised, I will not be upset.

The Vice-Chair: We have to cut it off there. I guess in some respects we only hope economists in general have more credibility than some elected officials when it comes to issues.

We want to thank you very much for coming in today. We appreciate your presentation and the detail which has gone into it. I hope the members of this committee get a better sense of some of the analysis that is coming from different directions for the upcoming year in the economy.

NOMURA RESEARCH INSTITUTE
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The Vice-Chair: The next presentation will be from Leo de Bever from Nomura Research Institute, Nomura Canada Inc. Welcome back to the committee. Again, we will have roughly an hour for the overall presentation, but we would appreciate it if you would leave some of that time for members to ask questions. I believe the clerk is

handing out your written presentation, so if you would like to begin.

Mr de Bever: Just by way of background, the front part of this presentation is something I have taken over the last six weeks to investors in Canadian and provincial government bonds in about 13 countries to try to explain to them what is going on. The back part is more particular to the questions at hand. I do not propose to take you through everything in detail, but I think we should look at some pictures and get an overall feel for what is happening.

You mentioned that a lot of economists were not terribly on target on what was happening in Ontario in 1991. I think that reflects in part the professional hazards we face. When you make these forecasts, you do not even know where you are because you do not really know what the recent history was with any degree of accuracy. That may sound like an excuse, but it is a serious problem.

Last year when the budget was put together and when we were putting together our forecast for Ontario, we were working with indicators that showed a considerably more robust Ontario economy than in retrospect it was. Be that as it may, the Canadian economy went through a really bad spot last year, and the Ontario economy by comparison was even worse.

I think there is going to be some light at the end of the tunnel. If you look at the recession in terms of economic growth, on the first page you see a graph that compares this recession with the last one. What is obvious is that last time the decline was much steeper into the trough of the recession and the recovery was much steeper as well. What we see this time around is a very shallow decline and a very weak recovery. That is one crucial difference.

On page 2, I have a graph that shows gross domestic product growth for Canada and the province. Again, it indicates that Ontario tends to be a more cyclical province. When Canada is doing well, Ontario does relatively better; when Canada is doing poorly, it is largely because Ontario is doing relatively poorly.

Given that it seems the decline in interest rates we have seen in the last 18 months is going to have its effect in 1992, because that is usually how long it takes for these things to work, and because 1991 was a year of restructuring for a lot of corporations, we are relatively positive on 1992 for Ontario. We think it will be slightly better than the country as a whole.

On page 3 you see some of the differences of this recession compared to the last one. You can see the very dramatic decline in profitability relative to GDP. You can see that profits bottomed out in the first quarter of 1991 and are ever-so-slightly inching up, largely as a result of cost-cutting.

The graph at the bottom of that page is more disconcerting. It shows what happens over time to the proportion of employment in manufacturing. I will come back to that later on.

The next page shows what has been happening to wages. I do not think employees feel particularly prosperous, but as a proportion of GDP they have been increasing their share, largely because everybody else has been doing so much more poorly. One point I am going to be hitting on is

that this very cyclical movement of income share and the employment declines that go along with that are something we should be concerned about and perhaps should be the focus of policy action.

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In terms of looking at the details of how we see the economy recovering, on page 5 I list the components. If in the 1980s the problem was that we spent too much, in the 1990s we are going to see that consumption is not going to be a big component of recovery. Residential construction in 1992 will be. We have already seen a recovery in housing starts, which virtually guarantees that construction will do relatively well throughout the year.

I also see a relatively bright outlook for investment in machinery and equipment, simply because once you have decided you are going to stick it out in Ontario, you had better invest to the hilt to try to keep the wolves at bay. The rest of the world is not sitting still and it looks like we may have been doing that for the last five years.

Non-residential construction, office buildings, commercial and retail outlets: Forget it. It is going to be a disaster area. There is excess capacity. We built too much and there is not going to be much recovery there.

Government nationally will see some expansion; very little, but there will be some.

I do not expect much in the way of export improvement, but there will be some relief in the sense that prices for export goods should recover proportionally more than volumes.

The disconcerting pictures at the bottom of page 6 again emphasize the difference between Canada and the United States in the behaviour of labour markets over the cycle. As you can see, we have a tendency to have unemployment rates stay up higher for longer periods of time and we have a tendency to have on average much higher rates of unemployment. Both factors have something to do with the way we run some of our social programs and the way the bargaining process seems to work in Canada as opposed to the United States.

On page 7 I start with financial market conditions. The really good news for this year will be that inflation will probably be a lot lower than most economists were expecting even a few months ago. Because of some restructuring that is taking place in areas like the retail sector and because of the generally weak state of the economy, inflation will likely fall under 2% for the first half of 1992 and only recover slightly after that. The main factor, of course, is that the contribution of inflation made by indirect taxes will diminish now that the GST has been in effect for a year.

On page 8 I indicate my outlook for interest rates. Interest rates are expected generally in North America to bottom out some time this year and that is what is reflected in this forecast, both for Canada and the United States. I have a sneaking suspicion we may have some good news coming there because I believe that particularly long-term interest rates are higher than they should be relative to the amount of inflation I envision happening.

I will not get into the constitutional thing. That was there for the benefit of my foreign audience. I think we have all exhausted that topic.

In terms of the outlook for Ontario specifically, on page 10 I see a 3% growth for gross domestic product, accelerating to 4% or 4.5% by 1993, relatively strong housing starts, low inflation and a fairly high unemployment rate, for some of the reasons mentioned earlier.

What I would like to focus on is why some of these things are happening. When I started working for Nomura I never realized one of the side-effects would be that I would be able to analyse some of the views I have had on this topic for quite some time. I get this feeling from most people who spend time out of the country: When you look at Canada from the outside you quickly realize that although we may be one of the largest countries in terms of size, from the outside we barely register unless we pull together as one nation and speak with one voice. More often than not, that is not the case. That is the reason I really feel constitutional talks are important, because I think these overriding, larger realities are what are going to drive some of the dynamics of our economy.

We are only one half of 1% of the world population, but we are better off than 80% right now, which makes us an enviable target. Most people would more than love to trade places with us. But we waste an awful lot of resources, in fact more than most people can ever hope to consume. As I told you last time, that is one of the reasons I find it ethically wrong that we, with this abundance of resources and high standard of living, borrow to consume even more.

Let us analyse what got us in the current position. We have a great abundance of resources and we have a lot of land. We were able to attract a lot of people to come to Canada after the Second World War. As a result, we grew very strongly in the 1950s, 1960s and 1970s. In the 1980s we sort of got stuck and we coasted along by spending more than we produced and borrowed the rest.

When you go outside you get a much more dramatic impression than from the inside that the world has been catching up with us and that communication and transportation have made it much easier to reach our markets. Industry by industry we are starting to feel competition, to the point where we are now losing jobs in the areas where we originally achieved our standard of living. I think we have reached a stage where we feel threatened by the outside. The outside is entitled to its success, by our own standards of measurement, but it does not mean that we should not try to figure out what is wrong and try to do something about it.

We all seem to blame the same icons: GST, free trade, John Crow and Brian Mulroney. I do not think any of these factors are terribly important in the big scheme of things. Maybe they have some importance, but they are not the real problem. I think the problem is all of us collectively as workers, managers, politicians, consumers and students have not done the things that are needed to make a stronger economy. I would not call us lazy, but we certainly have been taking it easy.

I think one response to that can be that you build a fence around the country and try to keep out foreign influences and save jobs by not buying foreign products. In a few cases some of that protectionist sentiment might make sense, but in a lot of cases it does not. Even with the best policies in the world, I think we are going to lose certain sectors, particularly in manufacturing. Because this is important, I will take you through it.

Look at page 12. The top two graphs show that from an employment perspective this recession is about as bad as the last one in terms of job losses. The bottom one on the left shows that there is a pattern to the kind of proportional job losses in manufacturing. During recoveries the manufacturing sector holds its own because everybody is making money and even manufacturing does not have too much of a problem. The problem occurs at the tail end of the business cycle when profits get squeezed and the only way out is for people to lose their jobs, and those jobs are not coming back.

Why is that? It is not just a Canadian thing. On the bottom right, you see that the same thing is happening in the United States. I could show you graphs for the United Kingdom, Germany or any number of other countries where the same thing is true. The reason that is true is on the next page. If you assume for the sake of argument the economy is growing on average by 3%, then you find that on average the demand for goods and services is roughly growing at the same rate of 3%. Productivity in manufacturing is around 3% or better; productivity in service is 1% or less. So when you do the calculation of what you need to produce the kind of demand you are generating, you come up with the conclusion that employment in manufacturing will grow on average not at all and employment in services will grow about 2%.

I made a statement like this 10 years ago, saying that by 1991 there would not be any more Canadian manufacturing jobs than there were in 1981, and everybody took shots at me. I am making that prediction again for the year 2000 because I think it is just inevitable. I am not saying that you should not try to generate more jobs in manufacturing; what I am saying is you have to be realistic about what you can achieve and you have to pick and choose what you are going to defend.

The one thing that was really driven home to me over the last few weeks when I spent time in the Far East is how other countries have recognized the problem much more clearly than we have. I went out there to try to explain what Canada was all about. I do know whether I helped them, but they certainly helped me understand some of our problems.

I was in Europe just before the end of the year, at the time when they were having their big summit on union. It was amazing to watch, particularly given that I grew up there in the 1960s when this whole issue was sort of dead, to see how they were groping for union, common market clearance and more efficiency. That was one way of doing it. If you think we have a third option to cosy up to the Europeans instead of the Americans, forget it; they do not have the time of day for us.

Then early in the year I went to the Far East. I went to six or seven countries that are somewhat less in terms of standard of living than we are now, but they are making tremendous strides. The one that struck me, by example, is Taiwan. They had been growing at close to double-digit rates for the last 10 years. Their productivity has improved. Their standard of living has improved. As a result, their currency has strengthened. Their response has been very pragmatic. Their response has been that they feel they have to learn to adjust to change, that they have to keep on shifting people from one industry to another to stay competitive. Now they are in a position where they can do things like buy out 40% of McDonnell Douglas to get to the top of the technology heap.

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Two things stick in my mind as common denominators of all those countries: They have far more discipline to achieve a common goal, and they are willing to enlist both savings and education in the process of achieving that goal. The positive historical correlation between savings and growth is an old one. It is not news. The emphasis on education is one that we purport to share. The first budget this government announced was big on how to create human capital, but as I indicated to you last time there is not really a clear understanding on how we are going to achieve that, other than to say we are going to spend X amount of dollars.

Most aging governments make no bones about the fact that their only resource is people. Their first goal is, as I put it, to teach people how to learn, because they have gone from intellectually realizing that multiple career changes will be common to planning for it. I think that is where we, in education, should put our emphasis.

Turning to fiscal and labour policy. I heard the tail end of discussions that went on and unfortunately I am hearing many of the same things. The recent Fiscal Outlook was not very well received, and I know what the Treasurer said, I know what the Premier said—that \$14.3 billion is not what you are shooting for. But that is the only number that hit the headlines and that is what hit you in the financial markets. So I think at the very minimum you have a marketing problem.

The additional problem I see is that there have been a lot of articles recently in the foreign press that have not only been critical of the deficit but have also highlighted what are conceived to be hostile attitudes towards business and inflexibility in labour relations. Again the government may not agree with that characterization but that is the image being projected and I think that is where you are going to have to start if you want to change the minds of foreign investors.

A lot of these articles miss the point in that they do not focus on what has been happening in 1991 to improve the situation. In particular in the labour area I urge you to take another look at the proposals you have there, because I really believe they are not going to improve things; they are going to make it worse.

The proposed amendments to the labour laws seek to protect workers against what they implicitly call abuse by employers, but the proposals themselves go far beyond

that. I think they continue to view the economy too much as a battleground between employers and workers and they focus on making it harder to shut plants down, but they do not make it any more attractive to keep them open.

I have read a lot of reports that the government is surprised it was able to place as much debt as it did following the last budget. It is true that at the right price I think Japanese and Far East and European investors will continue to buy your bonds, but the price will get higher the more often you come to market. The next test will be when Ontario floats a new issue. My guess is that, again, you are going to see your spread, relative to Canada's, increase.

There was also some notion that the drop in interest rates has given the province some options to spend more money because it is cheaper to finance it. Please remember that inflation is likely to be a lot lower in the future than it has been in the recent past and that real interest rates have not fallen to any extent yet. Lower inflation not only reduces interest rates; it also reduces the growth of revenue so that the real cost of debt service has not really diminished all that much, and that is ultimately all that counts.

Some have suggested that Ontario really has no debt because our assets are bigger than our liabilities and that securities companies would be more than willing to get paid for the privilege of selling your bonds. I work for a company like that. Yes, we are more than willing to sell your bonds, but we do not think it is particularly smart to float as many of them as you have been.

As we have found at the federal level, the higher your debt level rises, the more you become constrained by the need to take into consideration the wishes and concerns of the people who are buying your bonds. As long as you keep an AA rating, you are not going to be in too much trouble, but once you reach below that, you are going to find that many portfolios will not be able to hold Ontario bonds because of credit quality restrictions.

You are looking for budget suggestions. Frankly, I think your ability to affect the near-term recovery of Ontario is limited and that is something that, in a way, is a problem that politicians and economists have created for themselves. I really think that when push comes to shove, the government can set the stage for changes in the economy, but it cannot really determine the rate of growth to any considerable extent. It has to come from individuals, from people, from businesses.

However, if you want to improve both your image and the reality of your fiscal situation, I would encourage you to look at the possibility of extending the freeze you have announced for next year. The reason I am doing that is that this will probably allow you to get away with some re-shuffling of your capital expenditures. It makes a lot of sense, given that the depth of the recession has been most serious than was originally anticipated, to shuffle your capital expenses within the period you have set out. I do not see anything analytically wrong with it. The only problem is that you may have a credibility problem, in that people are not going to trust you to lower your spending when the year is out. So in order to do that, you have to tie yourself to some rules that say: "Look, this is what we're committing to. We're going to lower our spending until

our revenues catch up with our operational outlays and in the meantime, wherever practical, we're going to try to advance some capital spending."

Also, given that a lot of the sectors affected are going to be in the education and medical areas, I think you have to look at ways to raise additional revenues that are out of non-tax revenues. I see nothing wrong with raising tuition fees. Internationally speaking, they are very low. If you raise them and at the same time make it easier for people to borrow for their own training and education, I do not think that is internally consistent. The benefits of education accrue to individuals, so they might as well pay a large share of the cost of providing the training.

Point five, improving educational efficiency: The cry you hear from the school boards and universities is: "Look, if you restrict our budget we're going to have to lay off people. We can't provide the services." I am hearing more and more voices from people who are closer to this than I am, saying that there is quite a bit of opportunity to make progress in improving the efficiency of the educational system. My wife is a teacher. I look at it from the outside in. I am a parent. I know what goes on in some of the schools that my kids are part of. From a business perspective, I think school boards and school staff still have a lot to learn in terms of how to manage their affairs efficiently.

The same is true for medical services. I think doctors are not particularly good at running businesses. I know we have hospital administrators and we have people who are skilled in that area, but I think there is still a lot of headway to be made. There is also the basic observation that if you make something free, people overconsume it. I know that is a touchy area, but we have to find some way to impress some people, that when they consume medical services, it costs. I would be the last one to say that if they need medical services, they should not be able to get it, but I think there is a fine line there. There is a consumption element to some of these services that previously we may not have been willing to acknowledge.

I would also focus on ways to speed up structural change. This runs exactly counter to what has been happening in fact. Most industrial policies run in a rearguard action that tries to slow down the rate of change. Algoma is a case in point. Instead of trying to analyse the problem head on and make some drastic changes and move, we tend to drag it out over a longer period of time. I think that is wrong and in the long run it is not going to help you.

Now for a technical suggestion. I know this business of capital spending and its treatment in the budget is near and dear to the NDP's heart. The first thing any decent analyst does is to change the numbers to something that he is used to looking at, because what you are doing is really quirky and it does not fit in with what the rest of the world does in terms of analysing these things.

One of the features of our economic system is that during the recession people stop spending, not just because they lose their jobs but because they are afraid of losing their job. The way our labour market works tends to encourage that kind of thing.

I think that public policy should, in part, be geared to providing more flexibility to adjust compensation to the

state of the business cycle. I am not saying you should cheat workers out of income, but what I am saying is that if I had a choice, if I knew that everybody in this room and everybody in this province would give up 5% of their income, I would be willing to give up 5% of my income to see everybody employed, or at least everybody who by economists' definition is really unemployed. The bottom 4% or 5% is commonly characterized as frictional unemployment. I think this was highlighted again this morning by the numbers that came out on wages. What we have is, people who have jobs have wage increases that are way too high and as a result, given the profit squeeze, you end up with a lot more unemployed than you would if you were able to moderate that rate of increase.

Longer-term, I think our focus should be on the practical aspects of facilitating structural change. It is a very difficult topic, but I think it has to be done. If countries like Taiwan and Hong Kong and Singapore and Malaysia can get it right, we can get it right too. I think the government's goal of creating a higher rate of human capital formation is laudable but you have to have some practical ways of doing it without breaking the bank.

When I appeared last before this committee I pointed out that this government has somewhat different priorities, but I did not believe that the fiscal or other policies it proposed were going to achieve the results it was hoping for. On the whole, I still feel that. I see some change, some more appreciation of certain economic and other realities, and I think that is positive. But I do not see enough of it yet. I realize it is difficult, because a lot of people in this government do not have a financial-economic background. But please seek out advice, not just from people who agree with you and who are mostly in the academic sector, but try to deal with people who have met a payroll, who have run a business and have some economic expertise.

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The Vice-Chair: Thank you very much for your presentation. We have roughly about nine minutes per party, so who would like to start?

Mr Sterling: Thank you very much for coming again in front of our committee. I really enjoyed your remarks last year and I must say that I have enjoyed them again this year. I do not find much to argue with. I do not know what political label you wear or whether you wear one, but you probably are close to where I sit on most issues.

Recently we saw President Bush come out, and they are talking about a \$400-billion deficit in the United States. We are talking at the federal level of \$30 billion to \$32 billion and about \$10 billion this year here, and it looks like higher next year.

In your travels around the world, how do the other nations deal with their fiscal problems in terms of what seems to be a political will of the people, regardless of the politicians who are in charge? It seems that we have all bought into—and I am saying this in a corporate sense, regardless of party—this idea of spending people's money in the future and feeding overconsumerism in a lot of ways by using up services and resources without paying our own way. In other countries, is it a different view of the

electorate, or is it a different style of politics? How do they deal with it?

Mr de Bever: In a lot of countries I find that there probably is a lot less individualism and a lot less attention being paid to grass-roots politics. As a result, the ruling élite, whatever it may be, has a better ability to force through things that in a more populist country might be more difficult to achieve.

I think the problem really is that most Canadians—and most Americans, for that matter—do not really understand fiscal policy. I saw a Gallup poll that says that most Canadians think that businesses make 35 cents on the dollar. I think things are a lot less prosperous than that. So you start from there and then you look at people's perceptions of how many rich people there are to tax in a given country and who the rich are. I find that people's perception of reality and the true reality are very different.

So I think the fact that we are a country where we have to get elected to form a government and then have to go out and implement the policies that we just promised is a handicap. The only thing you can do there is train people how to be better economists—economists in the sense not of forecasting the economy but seeing the dependence between ways and means. That is a really tough problem.

I have done my bit to try to do that in various forums, and inevitably you start out and people totally disagree with you. After a while, they start saying, "Maybe there is something here." I think the fraud we have perpetrated is that somehow governments can do things differently than households, that we can spend ourselves into oblivion indefinitely without consequences.

If you go back to Keynes, who started this whole thing, that was not the intent of the exercise. The exercise was that at times government can spend more than it takes in if at other times it spends less than it takes in. The second part has been forgotten. Over the last 30 years we have always been running deficits. Maybe the country is getting ready for that now. People are starting to see that we are coming to the end of the road and that we are becoming more restrictive by what we are doing.

I go back to 1981 again, when the Ontario government organized a conference that said, "Do deficits matter?" One study by the Institute for Policy Analysis showed that you could finance large deficits way into the year 2010 and the debt-to-GDP ratio kept on going up and somehow you could pay the interest on that stuff.

My question was, and I was asked to review that: Do you really want to do that? What do you think is going to happen when you have all that debt? Do you not think the people who hold the bonds are going to call the tune as to what you can do? I think that is where I have my opposition and we are getting to the point where we can get a hearing with the population for that notion.

Mr Sterling: You are very much experienced in the bond market, and Nomura, I think, is the largest investment business in the world in terms of the amount of money that you control.

One thing I do not understand is that as the Ontario government, Ontario Hydro, goes out for more and more

money, how well known is it that its demand in the bond market is increasing rapidly? Does that make a great deal of difference? Does it make a great deal of difference when they go from \$100 million to \$1 billion, or is it from \$1 billion to \$10 billion? How do you measure that in the bond market?

Mr de Bever: This is the way portfolio management works. In a foreign country they have a certain allocation they can give to foreign bonds—for the sake of argument, say 10% or 15%. Within that foreign allocation Canada usually has a very disproportionate share because we have very high interest rates. Within that share, credit quality matters a lot. What happens is that you can load up on a bond for a while because the proportion in the portfolio is small, and as long as the credit quality stays high you can extend the holdings on that basis for some period of time.

Then two things happen. As the market calls it, they get tired of hearing the name. Ontario is at that stage. People in the market are getting tired of hearing the Ontario name, meaning that you are coming to market too often. The Kingdom of Denmark did that a few years ago and for a while they were sort of the pariah of the bond business. We have the additional problem that we are getting downgraded and as a result some portfolios will say: "This credit quality is no longer sufficient. Sell." Selling pressure means that your spreads relative to, say, Canada's go up. Those are the mechanics. In terms of people realizing what is going on, in countries like Japan they are very well informed, in Britain in particular they are very well informed, in Germany they are, and less so, for some reason, in France, I found. In the smaller Asian countries Hong Kong and Taiwan are very well informed because of the immigration ties with Canada.

You do not get much grace. If things turn bad, people catch on real quick. So yes, there is going to be, not a limit to what you can sell—at some price people will buy your bonds—but the price is going to be very high.

Mr Carr: I am very impressed with that. I would like to send a copy of the Hansard to both the Premier and the Treasurer. I take it that because you are on public record, you would be in favour of that. Have you ever met privately either with the Treasurer or the Premier to discuss these issues? They do not seem to be listening to us. What you are saying I think is bang on. Have you ever had a chance to speak with them?

Mr de Bever: No, I have never had the opportunity. I have dealt with various civil servants and I have testified before the Ontario Energy Board, but that is about as far as it goes.

Mr Carr: Thank you.

Mr Jamison: You talked about the Far Eastern countries really concentrating on their people and so on. I think that is a very interesting point. The training, retooling, reskilling of the workforce is very important.

You also mentioned the infrastructure, that the capital spending end of things is something that you are concerned about. With Ontario being positioned where it is geographically, within the range of the brunt of the United States market, what do you see happening if in fact capital

spending is not kept up to a pace where our roads and our schools and our hospitals are kept intact at least?

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Mr de Bever: You are going to face the same problems the American states are facing as well. Their infrastructure is falling apart. I am not advocating that we abandon the infrastructure investment. What I am saying implicitly and explicitly is that we need to maintain a reasonable level of infrastructure investment, but we need even more other investment; 75% of all investment is replacement investment in the private sector. If you start losing the will of companies like General Motors and Ford to invest in Ontario, you can have all the infrastructure in the world and it is not going to help you. That is what I am concerned about.

Your point earlier about the US being in trouble is a correct one, a valid one. The contrast between Canada and the United States is that I think a lot of the states undertax for the services they provide and that is why they are getting into trouble as well. That does not offer any excuse. It just says that Canada and the United States share many of the same problems. It does not say to everyone else that they are doing terribly well.

Mr Jamison: It is interesting that you should say that. On one of the Buffalo stations last night the results of a survey of business people in New York state was presented; 72% are thinking of relocating elsewhere.

Mr de Bever: I have seen similar studies for the US.

Mr Jamison: Again, the problems we see in the industrialized world are relative to each other. I guess the point is that there are new directions that are needed, that we are seeing a structural change here.

Mr de Bever: Structural change has been with us for 20 years. It is unfortunate that our collective memory is so short. As I showed you in the numbers, 1982 was as bad from an employment point of view as 1990. We put different labels on it but in actual fact the reality is not that different. It may be caused by developments in different industries this time, but the aggregate impact is the same. You are getting productivity growth not just here but elsewhere. You are getting competitive pressures and you have to respond to it. Our response so far I think is relatively inadequate. The fact that the Americans are not doing any better in many ways does not really help our people very much.

Mr Jamison: I understand that. The other point you made, and I think you are very correct in your thinking, is that in the manufacturing sector the numbers of jobs really will not increase. I tend to agree with you for a number of reasons: technologies, the combination of skills that are taking place in each workforce to make that competitive approach to the globalization of production and markets. Certainly if that were not to happen I would think that the average wage would be forced down, because the unemployment numbers do relate to that.

I just want to make the comment that I believe you are right on. It has been proven so far to be and I can tell you that this is happening. Most large manufacturers and industries are heading that way. The technology has to be intro-

duced, and along with that technology a combination of skills and things of that nature is taking place right within those manufacturers. I see no change in that, again.

Mr B. Ward: Thank you for your presentation. Your wages as compared to GDP apparently projected to a peak—or I guess now it looks like you are projecting a lower—do you foresee that trend to be coming down in 1993 and 1994 as GDP growth occurs?

Mr de Bever: It will have to. Just on that point, let me make a point that always frustrates me. Take the auto industry in the 1950s, 1960s and 1970s. We had some industries which were state of the art, top of the world. There was no competition, and relative to the economy as a whole they saw their wages increase and they assumed that this was the standard that from then on would be prevailing. Unfortunately those days are over and I think that in a lot of sectors we are going to have to accept it, and “good” jobs are not going to be quite as good. In other words, the margin relative to average wages that we built up in some sectors of manufacturing may disappear all or in part because of the levelling of competitiveness worldwide.

Mr B. Ward: That is a strong component of our unit labour cost.

Mr de Bever: It is.

Mr B. Ward: So that would help our productivity, if you are projecting, and I assume you are by the look of the line, that as the years progress, wages as a percentage of GDP will be coming down.

Mr de Bever: It will have to come down to somewhere around 55% or 54% again, I would think.

Mr B. Ward: Would you say that is the median?

Mr de Bever: If you go back to 1947 you will see that it rose very strongly up until about 1982. That is mostly because the economy shifted to a more service-oriented economy. The proportions are not changing as drastically any more, so it would be levelling off in equilibrium, I would think, if there is such a thing, to about 55%.

Mrs Sullivan: I too am impressed with your presentation, not only on this occasion but I was impressed with your presentation to the committee last year at about this time and I concur with your conclusions.

Mr de Bever: Thank you.

Mrs Sullivan: I would like to ask some specific questions relating to your projections for the economic outlook in Ontario.

If I can extrapolate from your Canadian projections, you are looking for moderate change in consumer expenditures, negative change in business investment, no change in inventories, with exports up and imports down, yet I see your GDP growth projection for 1992 for Ontario specifically is 3%.

Where do you see that growth occurring? In which sectors? Other than the change in ideology, I suppose, which we are not going to be able to do an awful lot about, it seems to me, unless there is a resignation that I am not expecting, where do you see the kinds of government actions that could increase the confidence to ensure new business

investment and where would that business investment best be placed?

Mr de Bever: First, to answer your question about the sources of growth, as I pointed out Ontario has a lot of very cyclical industries which right now are operating at very low levels of capacity. In areas like autos and steel and construction, even a small bounce from the bottom is going to give you, little by little, enough to give you this 3% that I am forecasting for the first year. That is really the one thing that strikes me about this recovery: that there is no one leading sector.

Last time we had autos just roaring out of the chute and just pulling everybody along. It is not happening this time because the auto industry is a much more competitive industry, although it is one industry where I think with a bit of innovation you could do a lot of things. We talked about Bush trying to sell 20,000 cars in Tokyo. I think that is a dumb idea. If you are going to sell 20,000 cars, you should sell them in North America. There is an easy way of doing that.

If North American producers were able to get together and produce the kind of warranty Nissan is producing, I think it would be easy to sell 20,000 extra cars. Why are they not doing that? I could see, from a public relations point of view, if Bob White and the chairman of Ford or whatever would get on TV and say, "We feel that we're as good as the Japanese and we're willing to put our money where our mouth is and this is the guarantee we offer you and we'll jointly guarantee that guarantee and that's why we want you to buy cars," instead of saying, "You owe it to us to buy a Canadian car or an American car because we are auto workers and we live here," you would get that sector moving a lot faster and you could grab a market share from the Japanese. We have been losing market share and we have been losing it at a terrific clip. There is no reason for that if we are indeed improving quality at the rate that is being indicated.

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Where the government can help, I think, is in facilitating this kind of thing, in shortcutting the kind of stuff that happened at Algoma. Is it not ludicrous that one month we have people trying to get a 7% wage increase and the next month they go bust after they get it? There has to be some way for government and labour and business to try to iron out these kinds of nonsensical situations, which are extremely costly from an overall point of view.

The one image from that Algoma thing that sticks in my mind, by the way, is the necessity of going into this training thing. I remember this man who had been working at Algoma for 25 years and he said, "What am I going to do now?" That question should not have to be there. He should have the skills to say: "Well, okay, this is tough. I'm going to need some time to adjust, but I'm going to make it in some other place." The fact that people do not have that confidence, I think, is in itself a problem.

Mr Phillips: Two or three questions. On the manufacturing side, the problem I have with your conclusion is that I think that accelerates the loss of manufacturing jobs, that we accept they are going to decline.

In my mind, they are declining for three reasons. The innovation, the technology, is doing it. That is one reason; there is no doubt about that. I think a number of the manufacturing jobs have actually gone to the service sector, because they used to be in-house employees and they are there now. I think we are losing it elsewhere. I have looked at the numbers very carefully over a long period of time, and my question to you really is: In Ontario, how important is the manufacturing sector to our future economy and how do we slow the rate of decline in that?

Mr de Bever: First, I take issue to some extent with what you said earlier. I think you can slow the rate of decline in employment, and I think if you focus squarely and head on, it is not going to accelerate the rate of decline.

Why are you losing these jobs? You are losing the jobs because you are not price competitive; you are not competitive on a unit labour cost. If you accelerate the rate of innovation in the manufacturing sector, you reduce your unit labour requirement. You also reduce your price, so you increase your market share. That is the way these things work.

I had this argument in 1981 with the research director of the Canadian Auto Workers. At that time he called me something like a "disciple of a defunct economist" for suggesting what I am suggesting today. The last 10 years have borne out that my notion that the more technological change you can get, the better off you are to preserve jobs has been correct. The sectors that are losing the fastest are the ones that have the weakest productivity growth, not the ones that have the highest productivity growth.

Mr Phillips: I agree with all that. I am just saying that to read your conclusion literally, you say: "Listen, manufacturing is on the way down anyway. Focus on the service."

Mr de Bever: No, that is not what I am saying. What I do not want people to say is, "We're going at all costs to keep manufacturing employment at this proportion of employment." What I do urge you to do is to look at the sector and say, "Okay, in which areas is there absolutely no hope?" Throwing good money after bad money is not going to do us any good. I would suggest that very low value added sectors—leather, textiles, some components of those sectors—are probably a lost cause.

Within the auto sector, I think there is a great deal to be said for discriminating between low value added and high value added and then trying to find partners in Mexico and places like that to help you produce the low value added stuff and concentrating on the high value added stuff. That is how other countries do it. I think that is the way we should do it, because our labour force is highly paid but also, on average, more highly skilled. We cannot compete with low wage workers in low value added industries, but we can compete with them in the high value added area because they do not have the average productivity relative to wage that we do.

Mr Phillips: I have a second question. My observation in talking to an awful lot of people in the business community is that everybody says there is a huge problem in the Canadian economy, but everybody says it is somebody else's fault.

Mr de Bever: That is exactly what I am trying to say here. It is not somebody else's fault. It is our fault, all of us, and unless we stop blaming each other it is not going to get fixed.

Mr Phillips: Is my sense right? I talked to a lot of CEOs and very few of them are looking at lower levels of remuneration. Do you think they are prepared also to look at—

Mr de Bever: If there is one area where I agree with Premier, it is that one. I think it is absolutely scandalous that in the compensation of executives, Mr Iacocca included, there is no relationship to the performance of their organizations.

This is an old question. I came across something by Socrates talking about what the ratio ought to be between executives and workers. Five was the number, I think. I do not know what the number is, but I am sure it is not what we see in some of these large corporations.

I do not have any quarrel with you there and I do not have any quarrel with the fact that management blames labour and blames government and so on to a larger extent than it should. I think we all should look inside our own area much more closely, because I think we all share the blame for what is happening here.

Mr Phillips: I think we are getting close to that. My last question is: What is the technical suggestion you have on treating capital?

Mr de Bever: I have forgotten.

Mr Phillips: Remember, you said on the bottom of page 16—how would you recommend we treat it?

Mr de Bever: I would suggest that you simply do it the straightforward way. There are two straightforward ways. One is that you go down the way the budget does in terms of operational deficits and you say, "This is my capital expense and this is my total deficit." That is one way of doing it. The other straightforward way is to treat depreciation as an expense.

Mr Phillips: I agree totally with that, and that would get around your issue of—in tough times you could spend twice as much on capital, and in good times half as much. We could not persuade the government to do that. I believe you are absolutely right. Everybody will look through the

numbers and say: "Don't try and fool us. We know what your real deficit is, and we are kidding ourselves on that." But we lost that. Both the opposition parties voted against it, but it is through.

Mr de Bever: The point is, if no one in the world sees it the way you do, why do you want to keep doing it that way? It does not gain you any points anywhere.

Mr Carr: It does with the public.

The Vice-Chair: Do they get fooled? How do all the other provinces do it? Do they do it according to these international standards?

Mr de Bever: Yes, on the whole they do. They take one or the other. The public accounts usually treat capital expense as just another expense but they do it after the operational side. The national accounts do it the way we suggested earlier. They treat it as depreciation.

Mr Phillips: I agree with you totally. I think it is designed to understate the deficit so that they get away from the embarrassment of saying it is \$14-billion or \$12-billion deficit.

The Vice-Chair: If I may, just one question before you go. Some of the comments you made in answering questions in general and in your presentation seem very consistent with some of the things that came out of the Porter report. Have you had a chance to look at that document?

Mr de Bever: I have seen the reviews of it but I have not looked at it in any detail. I found it interesting that Mr Porter said a lot of things to a lot of people in Canada that I have been saying for years, but somehow the fact that an outsider said them seemed to carry more weight. Or maybe it was the fact that we paid so much money for it.

The Vice-Chair: Maybe that was it. Well, it was interesting, because I thought a lot of your comments were similar to things he was saying in specific areas.

Again, thank you very much for appearing before the committee today. We appreciate your giving us your outlook for the country and for the province and for taking the time out of, I am sure, a busy schedule to help us get a better understanding of what is happening.

Mr de Bever: Thank you.

The committee recessed at 1158.

AFTERNOON SITTING

The committee resumed at 1406.

CANADIAN IMPERIAL BANK OF COMMERCE

The Vice-Chair: Since we have all three parties here, we might as well get going. We have with us Mr Tim Whitehead, general manager and regional economist for the Canadian Imperial Bank of Commerce. He has handed out a brief, which the clerk has distributed. Perhaps you would like to begin, Mr Whitehead.

Mr Whitehead: I want to begin by just saying thank you for inviting me and asking me to give my opinions on the economic outlook and the future of the Ontario economy.

I spent the last week out in Calgary at a constitutional conference where everything I said was viewed in terms of a white male from southern Ontario, so I am very much aware of coming here and speaking to you as an economist and a banker and having my thoughts and my musings interpreted in that light. I want to assure you that I have tried to produce my comments independently of those biases.

I should also mention that while I am clearly a representative of the CIBC, my comments should be taken as more independent than that. The marching orders I got from the bank were to the effect of, "Go and give your best piece of advice and don't worry about the fact that somebody else in the bank will be giving different advice and different comments on what the government should be doing." In fact, if you get another representative from the CIBC, you will probably get a different outlook and a different prescription. So with those caveats, let me start off.

I want to talk about the economic outlook to begin with, and then I want to talk generally about my perceptions about the economic environment and some budget considerations—general policy directions, I guess—and finally I want to make some specific suggestions.

On the economy, I have very little problem with what the Ministry of Treasury and Economics has put out in its forecasts, particularly the one contained in the January 21 update. They are looking for something in the order of 2% growth. We are pretty much in the same sort of category in terms of our growth outlook for Ontario. That translates into a fairly difficult economic environment in the sense that you are still going to have unemployment averaging above 9%. I am slightly less optimistic about housing starts than the Treasury and Economics people are. In the release of December 10, they were looking for something like 73,000 starts in Ontario. I think that is quite optimistic. I think 60,000 is probably more realistic.

On the inflation side, we were certainly in the ballpark. They are talking about 2.3% for this year and I think it is going to be about 2.6% for the CPI increase. On the exchange rate, I have a little difficulty because they did not update their exchange rate forecast in the January 21 forecast, so we are somewhat more optimistic, if optimism means a lower dollar. We would be looking for something in the range of about 85 to 87 cents for the average for this year.

Correspondingly we would be looking for a lower prime lending rate than Treasury and Economics included in its budget forecast of December 10. They had something well below 9%. That was as specific as they got. We would be looking for something closer to 7%, maybe even getting lower than that by the end of the year.

In general terms, at least in the macroeconomics component, the overall measure of these things, I do not see a big difference between what the Treasury and Economics people are saying right now and what we would be saying is an outlook for the Ontario economy.

I have some problems with the analysis contained in their handbook in that they tend to be somewhat more optimistic about investment growth and I am not quite so sanguine about non-residential investment in Ontario in the coming year. I think you may see somewhat stronger consumer spending, but the investment side I think will continue weak for another year at least.

Perhaps a more substantive problem I have with the tan book, and this leads me to my first recommendation, is that I am a little concerned that the analysis they put in there is somewhat slanted in that they attribute all the faults in the Ontario economy to the Bank of Canada policy or the free trade agreement or high interest rates or the high Canadian dollar. I think, particularly as we look at the investment side, there is room to believe that perhaps some of the policies of the Ontario government have contributed to the weak investment outlook. I am not suggesting it is entirely the fault of the Ontario government, but I suggest the business reaction to the deficit and to labour legislation, proposals such as that, have weakened the investment outlook. To the extent that the tan book glosses over or ignores that completely, I am a little concerned it may not be always the best basis for discussion.

Consequently one of the first suggestions I make is that perhaps there is room for production of these forecasts by an independent body. This is a proposal that was contained in the federal government's constitutional proposals, that you have an economic body that can pass comments and make an independent review of economic outlooks and budget policy. It is also in line with the practice in the United States, and that is the Congressional Budget Office, which produces relatively independent economic forecasts and comments on costing and a whole range of issues related to public policy.

The key thing here is that I am not in any way criticizing the forecasting effort of the Treasury and Economics people, because it generally has been fairly good. By that I mean it generally agrees with mine. My sense is that in the writing up of their document they tend to be suffering under some, one might say, political constraints. They are not new ones. I think they have always suffered under them under successive governments, but it is a problem that perhaps could be addressed.

Let me turn next to some general policy directions. The key thing here is that when I was looking at it and discussing it with other people, we clearly identified that the biggest

problem for the Ontario economy is jobs. We need jobs in the worst possible way, obviously. We are looking at unemployment remaining high for the next couple of years anyway. The key thing is jobs; not necessarily the high-paying jobs, but jobs. I think that is an important point that should not be lost. We would like high-paying jobs, but we really need jobs. Jobs will come about through economic growth. I am not advocating economic growth for any other reason than creating jobs. It is a very important social and economic dimension in the economy.

The question then is, how do we create this growth, how do we foster this growth? Under economic theory, at least as it stands today, the key things you want are a skilled workforce, capital investment and technological development. The fourth point, which is sort of only recently being incorporated into economic theory, is that you have to use those things in the most efficient manner possible.

That leads me to suggest the government can help stimulate this growth that is going to lead to sustainable jobs in the long term by helping develop a skilled workforce. This means education, job training, promoting job training, whether it does it directly itself or promotes it in the private sector.

Second, it should promote capital investment. Things the government does that discourage private investment, discourage capital formation. Since capital formation is a big component of technological advancement, discouraging capital investment discourages technological development.

The fourth component and the third area where they think the government can play a significant role, and one the government has already identified, is trying to bring labour, business and government together so that they can work more effectively. Maybe this is part of labour legislation. Certainly the suggestions on labour legislation are aimed at trying to get the collective bargaining process developed such that there is more democracy and more effective use of resources in the private sector. I think this is a really important thing and it is a track the government should follow.

Let me turn now to some specific suggestions, and I have split them up into short and long term. The first is that I am very sceptical about the government's ability to stimulate the economy in the short run. I am very pessimistic about pump-priming. I think the Ontario economy is a very small, open economy; not small in the Canadian sense but small in the world sense. It is a very open economy, so that money spent in stimulating or in tax cuts—deliberate spending—tends to get lost before it has a significant impact on the economy. You do not get the large second-round or multiplier effects.

The second point is that in trying to stimulate the economy you are more or less deliberately increasing the deficit. I am concerned that a deliberate increase in the deficit over and above what may be anticipated for next year actually may weaken the recovery in that large deficits may at this point have a negative effect on consumer confidence; that if we start pumping the deficit up here in a deliberate attempt to stimulate the economy, we may in fact cause consumers to sit on the sidelines, because they see this large deficit and they say: "Things must be really

bad out there. I'm not going to spend, because my job is going to be lost in the near future."

At the same time, there is a body of opinion that argues that large deficits are seen by the consumer supernationally, if you will, as being taxes that they are going to have to pay down the road, and they start saving as a consequence. I find that stretching the point a bit. I am more concerned about the impact of a large deficit on consumer confidence.

One short-term suggestion I would make is that the government consider privatization of some of its assets. I know the Suncor announcement was yesterday. I would suggest that Ontario Hydro, GO Transit and perhaps some others might be considered at the same time. I recognize these are big institutions and have predominantly been seen as a major portion of government policy in the province. I would argue there are benefits to be received from privatizing either one of these institutions. I will just talk about Ontario Hydro and GO Transit.

To the extent that you could privatize Ontario Hydro, the government would receive a fair amount of money and could use that to pay down some of its debt and ease up some of its financial burden. I would argue that Ontario Hydro in the private sector is really not much different from Ontario Hydro in the public sector. There are certainly regulatory mechanisms in place to control rate increases, to make sure it is environmentally friendly and that sort of thing. I would also argue that should the government consider privatizing it, it should make every effort to make the people who buy it the consumers of Ontario Hydro. The pattern I would suggest here is British Gas in the United Kingdom, where in privatizing the effort was made to make consumers of British Gas the buyers of its shares. There are a number of reasons for this and I have sort of touched on them in my document.

Similarly with GO Transit, I would say that if you could make the people who actually ride GO Transit the people who buy it, you could offer inducements in the sense of a discount on their monthly pass or something of that nature. What I am aiming at here is not so much privatization for the sake of privatization, but rather the argument that you could turn GO Transit into something more of a co-op, so the people who own it are the people who use it and they might be a bit more receptive to the fare increases that would be necessary to reduce some of the loss at GO Transit. I am concerned that in privatizing GO Transit you might increase the fares so much that you would cause people to use automobiles instead. But I think that can be circumvented if you try to encourage ownership, and that can encourage people to use the resource, as opposed to using their cars.

Let me turn briefly to long-term issues, because as I have indicated I am pessimistic about the government's ability to provide significant stimulus to the economy or to provide employment to the economy in the very short run. In the long term—and I recognize some of these suggestions may not be entirely palatable—what I would suggest is that the government harmonize its provincial sales tax with the GST. This has a number of positive economic effects. I understand it is politically difficult for a number

of reasons, but there are a number of reasons why it would be good for the economy.

Certainly it would reduce the cost of capital investment in the province and that would be a stimulus to the capital formation we need to create sustainable jobs. I would not suggest harmonizing the PST with the GST without considerable tax breaks or improvement to social assistance so that low-income groups would not be hurt by harmonization. Sticking with the provincial sales tax as currently constituted means you have a big portion of your tax revenue on a base that is declining relative to the overall economy over the next 10 years or so. Moving to the broader base, harmonizing the GST would put the province's financing on a better footing.

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I also suggest as a longer-term thing, and in line with trying to create a more skilled workforce, a tax incentive for businesses to invest in human resources or job training. This has been tried in Quebec and I cannot honestly say I know how well it has worked. They have had it there for a couple of years and I have not seen any reports on how well it has worked.

I am not suggesting this as a tax break for business. I suggest you might also consider raising taxes on business and offsetting it with a tax incentive to invest in human resources, but it is perhaps the most efficient way for the government to get businesses more involved in job training.

A third suggestion I would make for the long term is considering the idea of community development bonds. This has been used in Manitoba and Saskatchewan. Basically groups borrow money from individuals. That borrowing is guaranteed by the province and the money raised in that way is used to invest in small enterprises that have the potential to grow and are predominantly community based.

Clearly this involves borrowing on the part of the government because it is guaranteeing—if not borrowing on the part of the government, at least an increase in the continued liabilities. Studies elsewhere—and I am thinking of Saskatchewan here—suggest that the cost per person-year of work created through the community development bonds in the final analysis is about \$1,000. To my mind, if those numbers can be replicated in Ontario, \$1,000 per person-year is certainly an attractive proposition.

I would not be a banker if I did not advocate expenditure restraint. I would say, however, that it would be very difficult to employ in the short term. The expenditure restraint I would advocate would be in the medium term and in this regard I would say the fiscal outlook of January 21 included a continuation of a suggestion about a continuing fiscal review of expenditures and ways to deliver services more efficiently and cost-effectively.

I think this is a very good idea and is probably the best way to get out of the situation we are in right now. I would advocate, however, that the government should consider giving it a higher profile. Perhaps it could be done through committees composed of individuals outside government, making the reports public so you could give it a higher profile, putting more emphasis on it and convincing the taxpayer that the government is serious about imposing

these reviews and looking for more effective ways of doing things.

I was struck by the Ontario Fiscal Outlook, the January 21 document, in that there are about 12 pages of ways to raise taxes and about four pages of ways to hold spending. That perhaps reflects reality, but I was concerned that the document was comparing tax rates in Ontario versus tax rates elsewhere and saying, "We are low here; hence there is room to increase." That may be true and clearly there is a role for that sort of analysis and trying to figure out just how to tailor our tax system. I think it would be better if the government and budgets concentrated on trying to focus on how much of our provincial economy is going to the government in taxes.

We are looking at about 15.5% now if you take total revenues of the provincial government and compare that to the gross domestic product. I expect that is probably going to increase over the next while, but it is perhaps far better to target that and use it as a policy variable than try to look at individual tax rates. I argue that because there is an erroneous assumption that you can pinpoint taxes and say, "This group is undertaxed. You can hit them." In fact, tax incidence is a considerably more complex thing than that. The key thing to look at is the burden of taxes on the economy overall because it is the key component in determining how much our taxes help or hinder our competitiveness.

That might be a double-edged thing, by the way. The business community has an idea that Ontario is heavily taxed right now and that it is going to get worse. I think they might find other provinces in Canada are more heavily taxed if they take the total revenues as a proportion of GDP. On the other hand, it might make the effects of tax changes at the government level a little more transparent so that an overall increase in taxes may be a little harder to hide.

Finally, and this might seem paradoxical given the current economic environment, I suggest the government consider the creation of stabilization funds. This has been used, not terribly effectively I might add, in other provinces, but the idea would be to state in your budget what your revenue projections and expenditure projections are. Should you exceed your revenue projections—I would argue there is a possibility that growth may be stronger than the 2% the government is anticipating—that money should be put into a fund that can be drawn upon in years when the revenue projections are not achieved. Similarly the same can be done on the expenditure side. If expenditure savings are achieved—that is, they come in under what the government projected in its budget—that money could be put in a stabilization fund and called upon in future years.

This would not only get around the problem where governments in the past have seen windfall revenues come in and spent them almost as quickly as they have come in; it might also reassure investors and people looking at buying the province's bonds that the government is serious about trying to get its financial situation in order. Let me stop there.

Mr Johnson: That sounds like Keynesian economics; is that what you are suggesting?

Mr Whitehead: No, not so much Keynesian economics. It is really the government's own accounting.

Mr B. Ward: I found your presentation very informative. The concept of community bonds: Could you expand on that a little bit and would you have any more information you could provide to the committee on that particular concept? I find it very interesting.

Mr Whitehead: I will explain how I understand it works. I have some more material but I have not brought it with me; I can certainly get that to you.

Mr B. Ward: Could you provide it? I think it would be very useful.

Mr Whitehead: The material I have comes from the Saskatchewan government. It was instituted by the previous administration, but apparently the new government is also looking at it favourably. The way it works is that community groups are set up. They can incorporate themselves; groups of individuals in the community can get themselves together, and subject to approval by the government, issue bonds that will be sold more or less in their own neighbourhood, their community or whatever.

The government would guarantee those bonds with a five-year horizon to it. The group would then use the money raised to invest in local initiatives that might create employment, but basically are intended to be commercially viable efforts. While they might be community located, they could be almost any sort of endeavour—anything that exports or whatever—but basically they would be located within the community.

The government's guarantee works in the following way: The bonds are guaranteed but the government will not pay out for five years, so even if the company and the endeavours the community group invests in fails the day after it is set up and everything is lost, the government will not pay out for five years.

At the end of five years, the holders of the bonds have the option to either bail out and ask for their guarantee to be effected—the guarantee is really only applied against principle, not interest—can ask for the guarantee to be imposed and get their principle back, or they can say, "I will convert my bond into equity in the underlying institution." The key concept is that the government is only minimally involved in trying to figure out where to create the jobs or where to create the companies. It is really on a community basis. In a sense, I view it as community empowerment. People in the community can put their money into the community and help to create jobs.

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Mr B. Ward: They would know what is best. I would appreciate it if you would provide me with the information.

Mr Johnson: That was a very interesting presentation. I was wondering if you had an opinion on whether the province should be collecting taxes that presently the federal government collects on behalf of the province. One of the positive aspects is that apparently there could be some administrative savings, as I understand it, and also an opportunity to know exactly how much revenues are coming in. There is a delay, as I am sure you know, when

dealing with the federal government. I was wondering if you had an opinion on that.

Mr Whitehead: We are talking particularly about income taxes.

Mr Johnson: Yes.

Mr Whitehead: Personal income taxes. I am not so inclined. There are advantages to having a relatively common personal income tax system across the country. Obviously Quebec is an exception to that, but I think it is perhaps best for the working of the Canadian economic union if there is a relatively standardized personal income tax system.

There would be advantages to the province, however, in a sense. I do not know that there would be that great an administrative advantage in terms of the cost of collecting the tax. On the surface, I suspect you would be duplicating things and I do not see the saving there. You would have advantages, though, in the sense that you would be more involved in trying to forecast it. It is clear the province would have the same situation as it is going to have this year or next year. You would have the bigger advantage, however, in that you could tailor certain policies to try and direct things the way the province sees fit. For example, you could make more incentives to particular investment-type activities or more community-based activities or you could make the tax system more progressive, if that is your wish. There is certainly an advantage in terms of affecting policy there, but I am sceptical there would be much administrative saving, and I would argue that there would be some cost in terms of a non-uniform personal income tax system.

Mr Johnson: You mentioned in your document that jobs are important, whether a lower-paying job or a higher-value job; Nevertheless, a job is important. The system we have right now for general welfare assistance pays an amount we would like to think is appropriate for the needs of individuals on that. There is also a statistic that one would suggest is a standard of living, and if you make more than this you have attained—I cannot remember what the term is. For example, to be above the poverty line a family of four needs to make at least—

Mr Whitehead: The poverty line is the usual term, yes.

Mr Johnson: Do you think the poverty line—whether it is a real figure or not, I suspect there is some arbitrariness to it.

Mr Whitehead: Yes.

Mr Johnson: Do you think that would be reduced in some way if people were to become employed on a large scale in lower-paying jobs?

Mr Whitehead: I have not given any thought to that. I am not sure that is the case. My argument for jobs is more directed to the fact that when you are unemployed, it is not only an economic problem in the sense that there is a drain on government resources, that you are not creating anything and it is a wasted resource, but also that there is sociological damage to society, that there are a lot of sociological problems that arise from it. I think it has to be one of the most disheartening things in society today. It is far

better to have somebody employed, even in a low-paying job, than to worry about really attracting only the higher-paying jobs. I do not know if that answers your question, but I am explaining at least the basis for it.

Mr Johnson: Yes, that is fine. The question was not couched as well as it could have been, either. Thank you very much.

Mr Phillips: In the short term, you essentially agree with the Treasury people in terms of the economic outlook for next year. My question is around your longer-term suggestions. The government has already, I think, indicated what it is going to do in terms of economic recovery. They touched the same things you do, but they will be announcing, as they already have, how they are going to handle training, their creation of capital pool and the use of pension funds for capital. They are tackling the things you are suggesting, but with different vehicles. Have you any comment on those things?

I think there will be about four or five elements to their economic renewal plan. One will be taking probably about \$2 billion of training and retraining funds and putting them into an arm's-length, perhaps crown, corporation jointly managed by the unions and business. I am sure you are familiar with that.

Mr Whitehead: Yes.

Mr Phillips: The second one will be the thing that was in the paper the other day, the union-managed venture capital funds, where you invest \$3,500 and you get 90% tax credit on it. I think that will be the way they will develop the funds for the capital investment, then use the public sector pension funds for further investment, along with the labour relations changes.

Those will be, I think, four of the key elements of the economic renewal plan. They are different from your recommendations, but they tackle the same thing. Are those appropriate as solutions? Are they things you think will work?

Mr Whitehead: Maybe I am bringing a bias here. I am sceptical about government having a heavy hand in trying to direct things. Inasmuch as they are trying to set up these funds, perhaps they are trying to distance themselves and let business and labour manage them in varying degrees. I think it would be far better if you just left it in individuals' hands and let them try to figure out where they want to put their savings, rather than trying to heavy-handedly direct them through tax incentives or whatever, force them to put it in money that is going to come into Ontario.

On the education training fund, I think it could be done more cheaply if you try to encourage firms to make that sort of investment through a tax credit. The problem with firms making this sort of investment in job training is that they are always worried they are going to train somebody and he is going to leave. Hence, all the money they put into that has been lost.

You can overcome some of that problem about externalities, as economists call it, if you give them some sort of incentive, and that may be enough to overcome the worry about the probability that the employee will leave. Consequently the government ends up paying maybe 15% of the cost or 20% of the cost, but you get the same sort of

effect. Moreover, the private sector is the one that determines which particular job training would be appropriate and what is most needed at that time. I worry about large bureaucracies, whether they are managed by business and labour or government. I worry that they tend to be inefficient. I am much more concerned with trying to get more community-based and back down to the micro level.

Mr Phillips: But that is already under way now, the setting up of that jointly managed board. As I said, it will have probably a budget of a couple of billion dollars. Has the bank commented on that at all?

Mr Whitehead: No, not that I know of.

Mr Phillips: We were supposed to be dealing earlier this week with Bill 150, which is this thing here that is out on the market.

Mr Whitehead: Yes.

Mr Phillips: Has the bank commented on that?

Mr Whitehead: No.

Mr Phillips: I guess you have not commented on the pension-based fund thing yet.

Mr Whitehead: No.

Mr Carr: Thank you for your presentation. I enjoyed it very much. One of the things we talked about this morning is that what happens with governments is that if one level reduces taxes, the other level says, "Oh, boy, here's a chance to put our foot in and jump." Hopefully as a result of what is happening on the Constitution, there will be some clear lines on that although I am not too confident that will happen.

One of the things that happens, for example, is that when we limited the transfer payments to school boards to 1%, all that will mean is higher property taxes, because 80% of school boards' expenditures are salaries. They already have agreements of 5.6% with the unions, so 80% of your costs are going to go up 5.6%. The money that comes from the Ontario government is only going up 1%, so you are going to have to increase the property taxes. That is what happens with one level doing it.

One of the proposals made is that when you limit transfer payments to 1%, you should then say to the school boards, using them as examples, "We will mandate that teachers will not get a raise above 1%." Do you agree with that? What would be your comment on that? It works, of course, with hospitals as well.

Mr Whitehead: I guess I would have a problem with that, again along my philosophy that you have to give a fair amount of freedom to community-based responsibility. Perhaps a better way of approaching the same sort of thing is not to give a huge increase one year and then cut it back to 1% next year. The individual groups at lower levels of government build in expectations of continuing funding. If you make clear, as the government has done, that it is going to be one, two and two, then I think the local groups may immediately respond with higher property taxes. But as long as they get a clear picture of what they are going to face in the future, then I think there is an opportunity, as the Treasurer expressed, for us—the local groups, the hospitals, the community groups—to start building in those

funding expectations. I would view that as the responsible way to handle it.

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Mr Carr: I was interested in your comments about the private sector. I agree. I do not think there will ever be enough money to fund our hospitals and our schools if we get involved in, for example, housing, where the rent bills drive the private sector out and the public sector jumps in with non-profit housing. Day care would be another example, where they believe the government should run it, so they put \$100 million into it. That is where we have some problems with the government saying, "But the deficit would rise no matter who did it." When you look at the housing figures, what we are going to spend on housing over the next few years, we are talking about billions.

I was interested in your comments about the privatization. With regard to companies like de Havilland that we have now bought—of course all governments have done this, ie, Suncor was bought and now sold, and now we have jumped in with de Havilland—the argument has been that they need to have some government involvement, otherwise they would not get off the ground. Would you like to comment on whether governments should be involved in things like Bombardier-de Havilland, and if so, how should they work it?

Mr Whitehead: There may be an argument in a case like de Havilland that if the government did not step in, nothing would happen, but I view them as very expensive jobs. There may be an argument that you had to protect a particular industry that would have been lost otherwise, but still in terms of spending to create jobs those are very expensive jobs.

What I guess concerns me about the de Havilland deal, from the public purse point of view, is that the downside, if you take in all the guarantees, is fairly expensive. On the upside, I do not know how it is structured in terms of at what point Bombardier is going to buy out the government's equity.

Mr Carr: If it makes money, they can buy them out.

Mr Whitehead: Yes. I worry that every time the government gets involved with this, and it is not any particular government or any level of government, they always have a considerable downside and very limited upside. Maybe that is the way it has to be, and maybe that is the way it had to be in the case of de Havilland, but clearly it is an expensive proposition.

Mr Carr: It is not unlike what you had on page 5 when you talk about jobs when the government creates them. The figures are probably even a little bit higher in the de Havilland deal if you look at the number of jobs. Of course, we do not know the number of jobs that are going to be saved because we have just lost a few hundred more.

In regard to taxes, we have talked about how one government lowers and the other one jumps in sometimes, and so on. We have this overlap and duplication. Clearly, not specifically by the province, but people feel overtaxed and I think rightly so versus some of the other jurisdictions.

If you were going to have your chance to explain to the Treasurer what you think should be done with regard to

taxes, what would you tell him? As you know, he has been very coy saying that he has not ruled it out, but there are a lot of people who say he is going to have to increase some taxes to meet the deficit projections. If he does have to increase any, which I do not think he does, where would it be? How would you handle it? A higher provincial sales tax? Corporation tax? What would it be if you had to?

Mr Whitehead: Whatever he is doing with taxes, there is a built-in assumption in the business community that they are going to go up and are going to go up an awful lot. I think there would be considerable benefit to spelling out what the tax plans are for maybe two or three years down the road. I do not know whether that is possible and I am not sure it is. The uncertainty in that in the business community is probably as much a problem as anything else.

If there were no choice except to increase taxes, I guess my preference would be to broaden some of the tax base, particularly I mentioned converting the PST to the GST. But I am not sure even there, because I think a necessary softening of that blow on the lower-income groups would mean that a lot of that extra revenue would have to go anyway. I view that as a much more acceptable approach than raising income taxes, for example.

Mr Carr: I was interested in your tax credit for training. Community bonds were one of the things in the new directions you outlined a couple of weeks ago. There were some ideas that were used in other jurisdictions. With regard to the tax credit for training, how do you see that working specifically? If I am an employer of 10 employees and I want to do some training, how would I take that tax credit? What do you think is the best and most efficient way to do it? Everybody is telling us we need more training, more education and more workers. How can we do that very practically and simply?

Mr Whitehead: I would try to structure it in a certain way. I would make it a tax credit against all taxes, capital taxes and income taxes. I would set up criteria so that you do not just have fly-by-night or other expenses being categorized as job training expenses. I would work out some mechanism to make sure they are bona fide training efforts. I might also be inclined to scale them so that the biggest benefit from those tax credits would go to the smallest firms. Larger firms, and I would include banks there, have fairly well-developed job training programs. What you want to do—the biggest bang for the buck—is to encourage it at the smaller firm level, which typically and historically has had less involvement in job training and perhaps could do a better job of it. I would certainly make a sliding scale aspect of it too.

Mr Carr: You heard the Treasurer speak the other night as well, a week ago or whatever it was, with regard to the deficit situation. On page 5 you talked about the tremendous problem we have with the deficit. You are talking about not increasing taxes. You heard, and I mentioned this morning, that the Treasurer is going to meet with the other finance ministers. He is saying that we should stimulate the economy, although he is not saying Ontario should do it; he said the federal government

should do it. When somebody else is paying, I guess you can say that. I do not think we have got through. We have turned him in a lot of areas. He still believes he has to do something. What would you tell him with regard to government spending and running up the deficit to create jobs? How would you simply tell him that he should not do it?

Mr Whitehead: I would just say that you are not getting a big bang for the buck. In fact you may be negating some of the economic recovery, because as I indicated, I think if you get a big runup in the deficit you are really going to scare the consumers out of the market. The government is a big component of the market, but consumers are a far bigger component.

Right at the moment we have 10% or close to 10% unemployment in this province. There are very good reasons why consumers are not spending. I think a lot of it is psychology. Consumers are scared. They do not see anybody else spending and they are not prepared to spend. I would argue that if a whole bunch of things do not happen, if we do not have another runup in interest rates, if we do not have a breakup of the country and if we do not have a huge increase in the deficit, consumers will come back to the market, probably in about the second half of this year. They could provide a considerable stimulus to the economy, far more than what the government could do spending by itself.

Mr Carr: Just with regard to the spending cuts, as you know the big portion of it, give or take 75%, is the colleges and universities, social, health and so on. What has happened is that historically governments of all political stripes have not touched that, for a lot of political reasons, I think. If you were to take a look at it, realizing we do have to make some expenditure cuts, where in those areas would you look? This is a million-dollar question, because this is the big challenge for the Treasurer. Have you any suggestions for him in those areas that he might be able to get a bigger bang for his buck?

Mr Whitehead: It is a matter of exclusion. When I look at social assistance, I say there may be abuses to it, but I do not buy a lot of what Diane Francis writes in the paper. The key thing in terms of social assistance is that you have to reaffirm to everybody that it is money spent on those who need it. I do not believe you are going to find an awful lot of savings there, but you might, and I think you should make every effort to find savings there so that you reassure people it is money well spent.

In the other areas—health and education—my cursory examination when I have been in schools or hospitals is that it seems to me these are areas that spend quite heavily on administration. Maybe savings could be achieved there. We are driven into a very hard corner here. We are looking at three sacred cows that make up 70% of the expenditure. Of those, I would tend to concentrate more on the health sector and education sector rather than the social assistance, but I would look at all three of them, perhaps in that order.

Mrs Y. O'Neill: I appreciate your comments and I am sorry I was late for the beginning of the presentation. I think your assessment of the inability to pinpoint taxes is very accurate. I am not really sure this present administra-

tion fully appreciates that. If I just take the gas tax for example, your document and others that have been presented to us indicate there does not seem to be a hospitable environment for investment. I think what you say about "psychological" is a spinoff of that.

I am interested in what you said about the training inasmuch as that seems to indicate to me that you do not think there should be business subsidies. I am now going back to the Ontario capital cost allowance, for instance, and that kind of thing. Do you feel there is still a role for some kind of business subsidy, or should the business people be willing and have to take the risks and provide whatever professional development is there?

Mr Whitehead: I would argue there is perhaps some role for the government to try to encourage business. I would try to make it tax-neutral in the sense that if you offer some incentive for human resources development you should at the same time—I am not arguing for a tax break for business; I am arguing to try to put a little bit of incentive to offset what firms look at as an externality, that if they train somebody, he leaves. If you can offset that perception by giving some incentive there, then that perhaps is a good thing.

This is my reading of the business community: they may cry out for all sorts of things, but they would be far happier with some sense of certainty in the outlook, what taxes are going to be like and what their operating environment is going to be like, rather than have some sort of incentive to go out and spend right now. That would be far more important to stimulating investment than almost anything else.

Mrs Y. O'Neill: So it ties in with the psychology-mentality-atmosphere idea.

Mr Whitehead: Yes.

Mrs Y. O'Neill: It seems not to have really been deeply appreciated how important that is until this particular—if we want to call it that—recession. I guess we were into another mode of thinking; that things were always going to get better. Now we really have to turn our thinking around.

The Vice-Chair: Are there any other questions? Seeing none, I would like to thank you very much for coming in this afternoon and participating in our discussions on the pre-budget consultations and more particularly on the outlook for the year and presenting some options to mull over, actually some new options that we have not heard from some of the other groups.

Mr Whitehead: I enjoyed it.

The Vice-Chair: I believe our next group is just arriving, so we will take a five-minute recess while we wait for them.

The committee recessed at 1453.

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WEFA GROUP

The Vice-Chair: We will get started with our next group. I believe we have with us Mr Ernie Stokes. You are from WEFA, which stands for—

Mr Stokes: WEFA does not stand for anything.

The Vice-Chair: It is not a short form?

Mr Stokes: No. It used to be, but it is not any longer.

The Vice-Chair: What did it used to stand for?

Mr Stokes: It used to be the Wharton Econometric Forecasting Associates but there was a merger between Chase Econometric and Wharton and they just kept the acronym.

The Vice-Chair: It is just so we know the history. At any rate, welcome to the standing committee on finance and economic affairs. We appreciate your willingness to come and give your presentation today. If you would like to begin, we have one hour altogether and we hope you will not take the full time so there can be some time for questions.

Mr Stokes: Thank you for inviting WEFA. We appreciate the opportunity to come and discuss our views.

I assume you have heard lots of economic forecasts. The handout I have has the economic forecast of WEFA. I do not plan on talking about the forecast a lot. What I would like to talk about instead is policy, and in particular, where we have been and where we are going. One of the most important sources of growth or changes of growth, in our view, is what policy does to the economy. What I would like to do is concentrate on that today, and I will concentrate on what role policy has played over the last few years and what it could play in the future.

What has happened? If we look back to 1988 in Ontario, we were on top of the world. We had the most rapid growth in the Organization for Economic Cooperation and Development, one of the lowest unemployment rates, inflation was not bad and we were in very good shape. In 1991 we suffered almost the most severe recession in the OECD, had the highest unemployment rate and pretty high inflation as well. What has happened?

I would like to explain it by two major sets of factors. Economic forecasters always look at these sets of factors when they try to describe what is going to happen. You also use the same things when you look back. You can break them down for Canada into international developments and what I call domestic policy developments. Particularly in forecasting, international is important. But when we look at Canada recently, domestic policy has played a very important role in what has happened here.

On the international side, what has happened since 1988 is that the economies in the world have slowed down significantly. All of our major trading partners have slowed down. We are not the only ones. What happened is that in 1988 there were severe inflationary pressures in the world. The world economic growth in 1988 was very strong. Many countries raised interest rates to slow the economies down to reduce inflation and this is where we are now.

WEFA predicts, for example, that in 1991 the world economy actually declined for the first time in decades. It has never done that for years and years since the Depression. The OECD countries are doing better than the former Soviet countries. What is causing the world economy to decline is mostly the Soviet Union and the Eastern European countries. They are in terrible shape. But the OECD is also in very bad shape, so the rest of the world is not doing very well either. We are not in this alone.

We are a small, open economy. By that I mean we depend heavily on trade for what we do. We have to rely on what is happening in Europe and the United States and so forth, and generally if they are not doing well, we are not doing well.

If you look at the charts I gave you, on the third page there is one on Canadian and United States economic growth. What you will find out is that the two economies tend to move pretty well together. If you look at inflation, which I also present in there, you can see that our inflation rates tend to move together. If you look at interest rates, we also tend to move together on interest rates. That is what has happened since 1988.

But there are some important differences. We have had a bigger slowdown, ie a deeper recession. We have had higher interest rates than the United States and many other countries and our inflation has been going in the wrong direction. Theirs has been going down and ours has been going up. To explain this, we have to look at the domestic scene and the domestic policy environment. What I want to look at in this area is two sets, again. One is what we call "stabilization policy" and one is what we call "structural policy".

Stabilization policy is the sort of year-to-year changes in revenues and expenditures that governments make in trying to manage the economy. Structural policy is things like changing tax systems, free trade, the GST and so forth. There are two different sets of policies and they will have different impacts on the economy. One set of policies, ie the structural ones, are trying to improve the underlying strength or growth capabilities of our economy. The stabilization policies are trying to manage the economy so it does not grow too fast or too slowly so we do not get inflation or a too-high level of unemployment.

It is our view at WEFA that the major reason for the slowdown in Canada has been mismanagement with respect to stabilization policies. We think there were big mistakes made. I have worked in the policy business before for government so I realize it is difficult, but there have been some big mistakes made and I want to talk about that today.

When you look at what is happening in the economy from a stabilization point of view, what you are trying to do is manage demand and supply. We know that if demand exceeds supply, you are going to have inflation. If demand is less than supply, you are going to have high unemployment. So the role of stabilization policy is to manage demand and supply so that we go through the middle. We call the middle the concept of "potential output" or "potential GDP."

Potential GDP is the amount of gross domestic product we can produce in the economy using our capital and labour and resources at average rates of utilization, ie they are not overburdened or underburdened. If the economy grows faster than the potential GDP, we get inflation. If it grows more slowly, we get rising unemployment. The job of stabilization policy is to try to get us to follow potential GDP.

What has happened in the last few years is that we have not done that. If you go back to 1988—and I have included a chart here if you want to refer to it—it is called

the "real GDP gap". There is actually one for Canada, which is the first one, and if you look two pages back there is one for Ontario. This measures the percentage difference between actual GDP and potential. If you want to, think of it as the difference between demand and supply in a sense.

If you look at the Canadian one, you can see that in 1982 when we had our big recession GDP was way below potential, so demand was way below supply. You can see what happened as we went through the early 1980s. We got to 1986 and we were operating the economy at potential, so our resources just met what we wanted. Then we went above potential, that is, excess demand, through 1988. Then we came back down again and were in what we call a recession.

If you look at Ontario, you can see that in 1981, 1982 and 1983, we were operating with excess supply and we had very high unemployment rates. What has happened since then, however, is that we have gone in the other direction and at present we are back where we were in 1982. Many people say the recession now is worse than it was in 1982 in Ontario. I do not think it is. Based on these graphs, it is not any worse; we just forget. That does not mean it will not get worse, but up to this time it is not worse. It could continue and be worse. We are not necessarily worse off than we were before. That is the first thing I would like to point out.

The relevance of this chart for policy is that, as policymakers, you are supposed to keep us on the zero line. If you get us going too high, you cause inflation; if you get us going below the line, you have unemployment. If you look back, that is exactly what has happened. When you go back to 1986, we were just where we thought we should be. What happened? We had a worldwide boom in 1986-87. The whole world started growing very quickly. Consumer spending went up and we had an investment boom. Business investment went up in Canada.

You all know what it was like in Ontario in 1988-89. We were overheated like crazy. I moved here from Alberta and I could barely afford a house. That is what I call an inflationary gap. That is what the above-potential GDP is called, an inflationary gap, and when you get below-potential GDP it is called a deflationary gap. So above you get inflation, and below you get inflation, coming down and high unemployment.

In 1987-88, governments were spending money like crazy. What you are supposed to do with stabilization policy when the private sector is growing is get out. You are supposed to make room. This is the old style Keynesian economics. The way it is supposed to be done is that you are supposed to get out and make room for the private sector. Governments did not make room for the private sector in 1987, 1988 and 1989. This is at all levels of government. It is not just Ontario that is accused of doing it. The feds did it and everybody else did it as well. I am not blaming Ontario by itself, but Ontario clearly was growing too quickly. The policymakers should have got out then.

What happened was that all of a sudden the policymakers figured out what was going on. They saw all this infla-

tion coming up, the market was overheated and what they did was put on the brakes.

The Bank of Canada is not exempt from heating up the economy either. In 1987, because of the so-called stock market crash, it raised the money supply growth very sharply, which means lowering interest rates more than it should. This was an expansionary policy just when we did not need it. Fiscal policy and monetary policy were extremely expansionary, which led to this boom. Of course, what this is going to lead to is very high inflation. That is what happened in the 1970s and it would happen again.

The policymakers said, "We can't allow this to happen," so what did they do? They reversed course. They said, "We're putting on the brakes." Up went interest rates, spending growth started to slow down, taxes went up and boom, we were in a recession. That is what happened in this economy, quite simply. We should not have had the growth we did in 1987 and 1988. The gap in Ontario was about 4% or 5%. That means the economy was growing 4% or 5% too much then. Everybody was bragging about how great Canada was doing, that we had the strongest growth in the world. We should not have had that growth.

What has happened? We have simply taken it away. In 1988, we had huge growth above potential. What are we doing now? We are taking it away. Stabilization policy is supposed to keep those cycles very small. We had got unemployment rates down very low. What was the unemployment rate in Toronto, 4%? That was way too low. I know we would like the unemployment rate to be very low. I am not saying we should not have it low, but the problem is it got there not because of structural changes in the economy but because the economy was overheated. Wage demands went way up and inflation started. Housing prices went crazy.

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The point is—and this sounds stupid—the reason we have had such a poor time now is that we had such a good time before. It is quite simple. One of the implications of this for the future is that we spent too much trying to get the economy going. We stimulated it too much. We boosted the economy when we were already in a boom.

Think about what we are doing now. Everybody is saying, "Cut back, cut back." What we are going to do is go in the opposite direction again. In the boom, we all stimulated. Now in the bust, we are going to contract. All we are doing in this economy is making the economic cycles very volatile. Some economists call this procyclical policy, which means you increase spending and expansion in booms and you contract them in recessions.

Stabilization policy is supposed to do exactly the opposite. We are doing stabilization policy backwards in this country. What does that do to the economy? We call it destabilization policy. It destabilizes the economy. It causes booms to be bigger and recessions to be bigger. We are talking about cutting government spending now. That may be a worthwhile long-term goal—I think it is, because I like to pay less taxes—but I am not sure we should do it now, simply because we are going to destabilize.

For the private sector to grow and for potential output to grow, you have to have investment. You have to have

people learning about their jobs, productivity etc. If you continually go through boom-bust cycles like this, people do not invest. It is too uncertain. Business people do not like to invest when it is uncertain. People do not like to spend when it is uncertain. Why is consumer confidence low? Because they think they are going to lose their jobs.

By using stabilization policy in this direction, we are making business cycles worse, not better. The idea is: "Let's just take it easy. You don't have to spend so high." For example, in the future, when we start getting the deficit or when the economy starts to grow again, will the Ontario and federal governments, because their revenues go up, spend money again? When you have it, you spend it. That is what we are doing. The same thing is going to happen all over again. If you spend money when the deficits come down, you are going to cause this to happen again.

When people start blaming free trade, the GST and so forth for the poor performance of the economy, let's just think about this. We simply had to come down. We could not keep growing like that. That is a very important point.

Second, while we had to slow down this time because of these problems, why do we have to slow down so much? Everybody else was doing the same thing, but we have had a worse performance. The reason we have had a worse performance gets into the structural aspects, and there are a number of policies here that are causing trouble.

One of the biggest ones is called zero inflation. Zero inflation would be nice to have. The lower inflation, the better. However, when nobody agrees we should have zero inflation, the only way you are going to get it is by clobbering people. What has happened over the last three years is that the Bank of Canada has said, "We want zero inflation," and everybody says: "No, we don't want it. We want high wages and high prices." How does the Bank of Canada get inflation down? It causes a recession. It creates a deflationary gap, that big negative in the chart. That is the way we get inflation down in this country. We run big unemployment rates, big deflationary gaps. Not only did we have to get rid of our inflationary gap by slowing the economy down; the Bank of Canada said, "We want to go to zero inflation." Nobody believed them and nobody cooperated, so they have hammered us. That has made our recession extremely severe.

We have just been finishing a study on why the economy's performance was so poor. Quite frankly, it is attributed to monetary policy and zero inflation. It is not free trade. In fact, one of the reasons we wrote the paper is that people were dumping on free trade, saying it is the problem. If you look at what monetary policy does, it looks just like a trade policy. Tight money has the same effects as putting tariffs on or taking them off. What happens when you raise interest rates in this country relative to those in the rest of the world is it causes the dollar to go up. What does that do to our products? It is like putting a tariff on them, so people buy less of them. Also, it acts like a subsidy on imports, because imports all of a sudden become cheap. What monetary policy does is it taxes exports and subsidizes imports.

Why do we have cross-border shopping? It is so much cheaper to go down there and buy it, because of the monetary policy. The dollar has done it. The dollar has gone up 25%, ie, the prices of imported goods are 25% cheaper than they were five years ago. That is what does it. Just think about it. Would you cross-border-shop if the prices went up 25%? I doubt it. There may be service elements in there, but a lot of this can be explained by the type of policies we are initiating.

Anyway, my point is that everybody has done studies on free trade and nobody has really come up with a good scientific study that shows it is as harmful as the people said it was in the paper today. We have not lost 460,000 jobs in manufacturing since the recession started. I do not know where they get those numbers from.

I believe you should have low inflation. I am not criticizing the Bank of Canada fully in this. I think we needed lower inflation. However, what I would like to say is that we should change our policies on it, that we should all try to agree with the policy. If all of us go along with tight money, it is a zero cost. Everybody lowers his wages, everybody lowers his prices and there are no problems. The problem is that nobody gets along, nobody cooperates on policy, and everybody is fighting each other. That is what many people have criticized Canadian policy for. Why is Japan doing so well? They all cooperate. Why is Canada not doing so well? We have an adversarial system. It is as simple as that.

We do forecasts for business people and governments and so forth. We go in there with an inflation forecast of 1% in five years. "Does anybody here believe that is going to happen?" They do not. Neither do you. Well, we may get it next year. But the point is that the reason you do not believe it is why interest rates have to stay high. It has been very costly to go this policy now.

The reason I bring this up is, let's not blow it after we have invested in it; ie, policies in the future. We have invested in thousands and thousands of lost jobs to blow the inflation now. What I am saying is, do not go back and stimulate the economy and do crazy things to get it overheated, because all of the 300,000 manufacturing jobs we have lost will just have been a waste then. At least let's get something for our money, or our lost money. That is another reason why we have had tough times.

Another thing I think is relevant for the future in understanding what is going on is that there has been too much going on. We have had free trade, GST and tax reform. We have zero inflation. We also have a desire to reduce the size of government. I do not disagree with any of those. I support every one of those policies. However, they were all introduced at once they were not explained properly and there are no adjustment packages to go along with them. It is a mess. We do not know whether people are losing jobs because of free trade, GST, tax reform, whatever. We have no idea.

When the federal government introduced the free trade agreement, it said it was going to phase it in over 10 years. At the same time they are going to go to a zero inflation policy. What the Bank of Canada did in one year was to raise the price of Canadian goods by 25%. Who cares

about tariffs? They just wiped out all the adjustment. There is no adjustment. You adjusted, boom, like that. You did not adjust over 10 years. It was a joke. It is a coordination problem in policy. We have to get our act together on policy. We cannot be going off in one direction or another direction. It does not work.

I think what we should have done is probably what a lot of people have suggested: Let's go a little bit easier. Maybe we should have gone easier into zero inflation. I think it is worth while to do it. Maybe we should not take such a drastic approach, especially when we are trying to introduce free trade.

The GST is unfortunate. I think it is a good policy, but it is unfortunate it had to be introduced in the middle of a recession. From one point of view, it is unfortunate because it hurt the economy. From the other, it is good because it was not inflationary permanently. It hit it all at once and you got through.

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What has happened is that people are extremely confused as to what is going on. They are starting to blame policies that are good for the economy and are saying those should be eliminated. You have people saying free trade should be eliminated. I do not think free trade has really hurt the economy very much. Free trade was oversold. The average tariff rate in Canada and the US was around 3% or 4%. Who cares? Really, it is nothing. The exchange market, like I just said, damaged the trade sector much more than any free trade agreement did. In certain industries there were high tariffs, but not very many. I really think that was oversold but I think it is a good policy. The GST is going to help business.

The important thing to look at here is not actual gross domestic product; it is potential. These policies were implemented because Canada had such poor productivity growth in the 1970s. The Conservatives, in fact the OECD, the whole world was getting into this. They said: "Productivity has been terrible in the 1970s. What is wrong?" They came to the conclusion that it was because governments were messing up the private sector. Governments subsidized things and put tariffs on. What they did was to make the resource allocation in the economy based on government decisions rather than economic efficiency. What was profitable to produce was not based on economics; it was based on what industries government wanted to go. The goods and services tax is a prime example of eliminating that.

The federal sales tax was introduced when there were not many services around, so it was taxing goods. Do you think it is fair to tax goods and not services? Not only is it unfair, but it also causes resources to be allocated from goods production to service production. If it is cheaper to buy services you will buy more services than goods. When you take off the federal sales tax and put on the GST, you remove the bias. Those sorts of things will increase efficiency and the potential GDP. You may like the FST or you may like tariffs as long as they increase economic growth, because we are not going to get any more economic growth in this country unless we increase productivity.

The solution in the early 1980s by the Conservatives, and even the Liberals when they started, was to get these structural policies put in place—tax reform, free trade etc. These policies were to improve the efficiency of the economy, so I think we need those. The question of how they are introduced is a different issue.

Where are we going? Our forecast is not very optimistic. We see two years of pretty slow growth. Why a weak recovery? For one thing, as I mentioned before, the rest of the world is not doing very well and we do not do very well when the rest of the world, particularly the United States, does not do very well. We are not going to get much support from the United States, so we do not expect that to help us. I think another reason why we are going to have a slow recovery has to do with policy. Fiscal policy is doing what I just said it was. It is operating backwards again.

Monetary policy is still tight. You may think interest rates have come down, but just remember that the difference between interest rates and the inflation rate is a measure of how tight monetary policy is, not the absolute level of interest rates. When the inflation rate comes out at 2% for January and short-term interest rates are still around 7%, the difference is about 5%. That is like it was two years ago. Inflation has come down but interest rates have not; not enough. That is not good for growth. I think that is still a problem.

On the fiscal side, I made up a chart for Ontario here near the back, on your government deficit, and call it the budget surplus. I think it is important to look at this for your decision-making in the future. This is not the official government data. Statistics Canada publishes what is called the Provincial Economic Accounts. They create their own measure of the deficit or surplus and that is what it is. It is slightly different. Lately it has been about \$1.5 billion less than the Ontario government's estimates. It is a different accounting system. Anyway, they do move in the same direction.

What I want to show you here is simply what happened to the deficit and how much it is due to the recession. There are two measures of the deficit. One is called "cyclically adjusted" and one is "actual." This is actually the surplus. When you go down it means a bigger deficit. When you look at the cyclically adjusted deficit it takes out the fact that we are in a recession. Where would the deficit be if we were operating at potential output, if you remember my potential output measure, if you are operating at sort of full employment or full capacity?

What you can see is that the actual deficit went from a surplus in about 1988 to about \$9 billion in 1991. I understand it may even be revised now. The cyclically adjusted one, ie, if the economy were operating at full employment, is about \$2 billion. I should mention that higher welfare payments are included in there as well as higher capital expenditures, so there is some non-cyclical stuff in the expenditures. Anyway, what I have done here is to adjust revenues.

What has happened is that because of the recession, the deficit has gone up by about \$7 or \$8 billion, so everybody is panicking. You look back and you say that in the previous

recession we had just as bad a decline in the economy, but the deficit did not do as badly. How is that possible? You should ask some of the Treasury people to look that up. I worked it out. It has to do with the fact that you are looking at absolute deficits rather than as a share of GDP, ie, the bigger the economy gets the bigger the deficit is going to get in the circumstance.

The reason is that when you increase spending over time, expenditures get bigger and bigger and you have to keep raising tax rates to match those. If you are going to have a policy where you want to increase the size of government, you also have to increase your tax rates, your sources of revenue. As well, over time the economy gets bigger, so what happens here is that when you go into a recession, in this case when you are getting higher tax rates and higher expenditures, when the economy gets bigger, you get bigger deficits. It is called "inflation illusion."

The reason I am mentioning this is that you think it is a lot worse than last time. I do not think it is a lot worse than last time when you adjust for the size of the economy, Ontario's GDP going into the 1981 recession compared to going into the 1990 recession. The nominal GDP was 250% higher in this recession than it was in the last one. Your amount of revenue out of GDP—your revenue base is GDP, essentially; it is income taxes etc—gets higher. So you will see your deficit collapse.

When you worry about policy, do not look at actual deficits. Adjust them for the size of the economy. I did not do that here. If you look at that potential chart, the GDP gap chart, what is going to happen here is that when the economy picks up again this is going to disappear just like that. I am telling you that it is falling. Look how far it fell just because of the recession. If you get your gap closed, which we call your output gap, that is going to disappear really quickly.

If you start raising taxes and cutting spending it will help in terms of getting the deficit down, but if your economy ever gets going again you will end up running huge surpluses. Maybe that is good, but what I am trying to say here is to watch out for these big numbers. They are generated by the fact that your economy is bigger and your tax rates are higher than they used to be. You are relying more and more on the economy to finance your expenditures. The bigger your expenditures get, the more your tax rates have to go up and you become extremely vulnerable to cycles.

This is another reason I suggest you watch your stabilization policy if possible; it is not all up to you. This is going to happen to you. It happened to Ottawa in the early 1980s and it is happening to it again, massive changes in its deficits, and a lot of it has to do with the fact that it is just a simple cycle. If the economy can pick up again, you are going to see this deficit disappear fairly quickly. That is one year it did that. It is unbelievable, but the economy fell—the growth rate was very big—a big decline.

People were telling you yesterday to ease up, I understand from the radio. I would recommend easing up for two reasons. One is this pro-cyclical problem you are doing—maybe you are not doing it but whoever it was before was doing it—and the fact that you can get rid of

this deficit when growth picks up. You have lost a lot of jobs in this province. That is a lot of tax base. You have lost a lot of profits. The deficit was not in bad shape three years ago. It has got worse because of the recession. Your deficit was virtually zero on a provincial accounts basis and it was slightly bigger on a public accounts basis.

I think once you get the economy going again, provided you do not go on a—one of the things you will notice is that what I call "cyclically adjusted" has gone from a surplus to a deficit. That is due to policies implemented by the latest government. They are trying to stimulate the economy with higher investment spending and so forth. Their spending growth is very large. That is why we have gone from a cyclically adjusted surplus to a deficit. The previous government raised the thing to a surplus and then it collapsed again, but once we get the economy going we are not going to have this big deficit problem.

In the meantime, the economy is going to be weak and people here are worried about that. They are worried about the deficit. The federal government is worried about the deficit. It raises UI payments and other taxes to cut spending. I think it is going to make things worse; I do not think it is going to make things better. If it is part of a long-range plan to cut expenditures, that is okay; I agree with that, but why do you not do it in a boom?

1530

We missed the golden opportunity in 1987 and 1988. We could have increased taxes dramatically then and we would have made the economy better off, not worse off. We would have avoided what we are into now. It is hard to believe but it is true. You cannot grow faster than your resources. It is impossible; you cannot do it.

What we see in the future is everybody still worried about this problem, and it is going to cause the recovery to be weak. One of the problems I think we are going to have, and you really cannot do anything about that in this government, is the conflict between monetary policy and what has happened to the Canadian dollar. The Bank of Canada has reduced inflation in this country through one source mainly and that is dollar appreciation. A rule of thumb on the Canadian dollar and inflation is that for every 10% appreciation of the currency you get about 2.5% lower inflation.

This is why the bank is worried about the exchange rate falling. If the exchange rate falls 10% the inflation rate in that year will go up 2.5%. For example, if this year we are running at 2% inflation to start with and the dollar goes down 10%, we will be running a 4.5% inflation. That is why the bank is petrified of the currency coming down.

Of course the dollar has gone up 25%. If you apply my rule to that you realize that much of the disinflation we have had over the past year has not come from workers and firms; it has come from import prices coming down. Our import prices are affected by the currency. They have come down 25% and that is translated into lower domestic inflation.

What the Bank of Canada has to worry about now is whether the rest of us will reduce our demands on the economy. They do not want the dollar to fall, which is necessary, we believe. If you look at the very last chart in

my handout you will see what has happened to the current account deficit. It is plotted there as a percentage of the GDP. Again, I use the GDP to take into account the size of the economy. It is the worst we have ever had in the last 30 years. We have never had this bad a current account and the main reason is the dollar. The Bank of Canada was fighting inflation through creating large trade deficits. This is an unfortunate side-effect, but this is what has happened.

What has to happen for the economy to improve is for us to change our cost-competitive position. Cost competitiveness is something everybody talks about. Our view is that the dollar has to come down or wages and costs have to come down to solve the problem. A measure of competitiveness for manufacturing that we come up with shows that since 1986 the Canadian manufacturers' competitive position has deteriorated by about 50%, ie, their costs have increased relative to US costs by 50%. Some of that is because of the dollar, a little more than half, some of it is because of high wage settlements in Canada relative to the United States and some of it is because of our lower productivity. You have seen these charts before.

What has to happen for our trade balance to improve—and it has to improve; it is terrible—is that either we have to get the exchange rate down or our costs have got to come down. In WEFA's forecast we are going to have tough times in the next two or three years because the Bank of Canada is resisting lowering the dollar to improve the economy and that is what is necessary. If you do not have the dollar come down, you have to have our costs come down. If we want to go back to the old position, if we want to eliminate that 50% reduction in our competitiveness, that means the dollar has to come down 50% or our costs have to come down 50%. The Bank of Canada would like to see the costs come down 50%. How likely do you think it is that we can get wages down by 50% in this country?

Our view is that the dollar is going to come down and wages are going to come down. Inflation is already coming down. The only problem with that is that as long as the bank wants most of it to come through costs and as long as we do not want it to come through costs, the unemployment rate is going to stay above 10% because what the bank has to do is beat us into submission. It has done that for three years and it will continue to do that until we get our cost structure in line. It is an unfortunate position. Our view is that the dollar is going to go down below 80 cents within three years because we as Canadians cannot accept those sorts of wage declines and we will not get productivity growth. That is another reason why we think we are going to have a weak recovery.

When we look to 1994-95, if the currency comes down and if wage settlements come down somewhat—not as much as the bank would like to see—I think we will be okay. Our forecast for 1994, 1995 and 1996 is 3% or 4% growth. But we have two or three years to adjust to the GST, the free trade agreement, tax reform, zero inflation and lower government spending. We have to adjust to these. There are adjusting costs for all these policies and we are going to have to incur them. Unfortunately that is going to hurt us. Hopefully we will benefit in the last half

of the 1990s. I think we will. That is our forecast, that we will, but none of us believe these things and therefore we fight them. The more we fight them, the worse it is. I am optimistic, but not for this year and next year.

Mr Phillips: Thank you very much for taking the time to be with us. I do not know where to begin. You are predicting what kind of growth this year in gross domestic product for Ontario?

Mr Stokes: For Ontario, about 3%.

Mr Phillips: And in 1993?

Mr Stokes: About the same.

Mr Phillips: Your advice to us is that we cannot be particularly tough on the spending side at this stage.

Mr Stokes: My advice is simply do not overdo it. I am not saying to increase spending. What I am saying is do not panic and start trying to cut, because one thing you cannot do with fiscal policies is eliminate a deficit. The way the economy works is that for every dollar of spending you cut, you will not get a dollar on your deficit. It has to do with the economic multiplier; that is, if you increase spending by a dollar, the deficit does not go down by a dollar and vice versa, because some of it leaks out. What you will do if you cut spending by a dollar is somebody will get laid off and you will lose some of your tax base. That is in the short run. In the longer run that can change, but in the short run that is what is going to happen. If you cut the deficit by \$1 billion, you will not get it back. If you reduce spending by \$1 billion, you may only get \$800 million, so you are not going to get it anyway. You will not get the full \$1 billion. It does not work that way. It never has and it never will.

All I am saying is please do not continue with procyclical policies. Do not make things worse when they are bad and do not make things better when they are good. If you want to cut spending, great. I love that, if you downward trend spending over time. When the economy was strong, you could have grabbed a whole bunch of money out of the economy, no problem, because we were growing too fast anyway. But do not try to grab it when everybody is down and out, because we do not have the capability to give it up.

Mr Phillips: The challenge with your recommendation is that you are looking at real growth in the next four years averaging maybe 3% or something like that.

Mr Stokes: Yes.

Mr Phillips: That translates to revenue increases of less than 3% each year, unless you increase taxes. If you leave your taxes at the same rate, your revenue growth will average less than 3%, so your prescription here is for perpetual deficits. If you are looking for ways of getting the economy rolling again, I think you are saying you have to get your fiscal policy in balance. The challenge with your recommendation is your prescription is for deficits that never begin to trend down.

Mr Stokes: No, I am not saying that. What I am saying is the optimal time to reduce your deficit is not at the bottom of the cycle. Eat the deficit for a couple of years. You can still try to reduce it a bit. You can cut back, but

wait until the economy is growing. When you get the economy growing at 3% for a couple of years, then raise taxes or tax spending.

1540

Mr Phillips: We have a different opinion of how much cash that throws off. You said that will look after the deficit.

Mr Stokes: A lot of it will. What you need is to get Treasury to do a good analysis of this.

Mr Phillips: They have. I think there is a well-accepted model that the revenue goes up at 90% of the gross domestic product increase. That is a well-proven model that has been used and has stood the test of time for 20 years.

Mr Stokes: Yes, but you have to remember I am not saying to cut spending. By cutting spending, I mean do not increase it faster than you should. I am saying static spending. I am not saying to cut spending. The difficulty with evaluating this is you have some view of where spending is going in the future, and if you think that is 5% a year, I am telling you that is crazy. If your forecast is 5% expenditure growth per year for the next few years, then you are way out of line with the inflation targets of the Bank of Canada. What I am saying is, given what spending is now, do not try to reduce it. If you kept zero real growth on expenditures, what would happen over the next few years?

Mr Phillips: The deficit would go down by about \$1 billion a year.

Mr Stokes: Without your revenues?

Mr Phillips: That is with your increased revenues, based on your economic forecast. So your deficit would go from \$9 billion to \$8 billion to \$7 billion to \$6 billion. Of course I am not taking into account the increased costs of servicing the debt.

Mr Stokes: That will come in, but what you have to remember is if interest rates remain low, that debt servicing cost gets a lot lower too.

Mr Phillips: That is what we all thought, but next year I think the debt servicing cost will probably—

Mr Stokes: The problem is that when you look at your expenditure growth, it is 13% or 14%.

Mr Phillips: No, I used your model of zero increase.

Mr Stokes: What I am saying is that is what has happened. When you have a 13% increase in expenditures, your deficit is bound to go crazy. I am not saying to cut spending. Well, if you assume it is 5% a year, then I am saying to cut spending, ie, keep growth in your expenditures low relative to your GDP. If your GDP grows 3% a year in real terms, keep your spending at zero.

Mr Phillips: I am assuming you do that. I am just saying to you that you make very little dent in your deficit numbers because your revenues go up less than the gross domestic product increase.

Mr Stokes: I have not looked at Treasury's economic model, but I would like them to explain to me how we fell so fast then. There was a 2.5% decline in the economy. How far did the revenues fall?

Mr Phillips: The reason is that last year when the budget came out there was a general acceptance we would be looking at real inflation rates running in the 3% to 4% range, but there was no recognition of that and so the spending was predicated on continuing with salary settlements in the 5% to 6% range.

Mr Stokes: That is part of what I am saying. I do not understand why the deficit got so big. That is the question to ask. Let's see some accounting. If you use the rule that revenues increase by 90% of the GDP, then revenues should have fallen less than the 2.5%.

Mr Phillips: Revenues essentially stayed the same. They actually decreased because the economy decreased.

Mr Stokes: That is what I am saying. They should only decrease by the same rule as when they increase.

Mr Phillips: They did. That is what I am telling you.

Mr Stokes: So your problem is expenditures then?

Mr Phillips: Yes, exactly.

Mr Stokes: But that is what I am saying. I am saying do not cut spending in that sense. Keep your expenditures at least flat. You can gradually cut them. What I am getting worried about is trying to slash them by 10% or 15% or something like that. I am not talking about that sort of thing, 10% or 15%, but you could just hold your expenditures in line.

Mr Phillips: I think you can go to sleep easily tonight. They will not be cutting by 15%.

Mr Stokes: Okay.

Mrs Sullivan: I want to ask you in particular about your firm, about the kind of counsel you provide and to what kinds of clients. Have any of those clients decided that the corporate world is no longer appropriate for them in Ontario? Are they seeking to move or to cut back on their capital investment?

Mr Stokes: We have clients from big business mostly, large firms and governments. That is our client base: very large corporations and governments. What we see is probably what you read about. Most of our clients are cutting back. We are losing money of course too. They are all cutting back. None of them that we have talked to have talked about moving. They all complain about tax policies and so forth, but they have just cut back like everybody else is cutting back. I do not think the Canadian cutback is much different than the US cutback. There is the world competitiveness issue and everybody is cutting back.

I guess the other question is, has anybody phoned me and asked about moving to Ontario? You are in Ontario and you have a big fixed cost of being here. It is a major decision. I get phone calls from clients in the US. We are an international firm so we have offices all over the world and people ask me what the environment is here. I really cannot recommend to them to invest here right now simply because—I did not even talk about one thing and that is the Constitution.

Ontario is important, but I think there are other factors as well. There are always general complaints about too much government. I complain about that too, but I do not see any major problems that way. There are people who

are worried about the labour legislation and so forth. I think that is a major concern of business right now. I am sure most of them have told you that.

Mr Carr: I agree with a lot of what you are saying in terms of how we sacrifice long-term planning in a lot of cases for political expediency. All parties do that. One of the problems I see when I look at this government is that they said last year that what we needed to do was stimulate the economy and throw \$700 million in, and this was the answer. Then of course we zigzagged and it became, "We have to cut now." What happens is many people get cynical. They say: "You don't have any long-term direction. You don't stick to it." That scares people. I think a lot of it is because a lot of politicians do not appreciate the economics.

Just in the broader sense, and excluding the people from Oakville South because this fine gentleman is from Oakville South and we all know those people are well versed in economics, what is your perception of the average person's—

Interjections.

Mr Carr: That is why I got elected, and we will not ask him how he voted. We are talking about a complicated instance and I will give you an example. You talked about free trade. I worked in the customs brokerage industry prior to free trade. You are right that the tariffs were low, but 80% of the product came in without duty. Of course the people opposed to it said they were going to blame every robin that falls out of the tree on the free trade agreement. What I think is part of the problem is that politicians try to muddy the water for political reasons. What is your perception of the general public's grasp of the economic situation? Do they understand it, appreciate it and what can we do to improve it?

Mr Stokes: Quite frankly, I think it is too complicated for most people. I think a lot of economists do not understand it. There are a lot of things going on. The average person does not understand the economics of free trade. The average person does not understand the economics of the GST. You have to have a reasonable amount of knowledge about economics before you can understand those issues and the implications of them.

One interesting thing about economists is that economists are very good at talking about long-term effects of policies, but we unfortunately do not have a very good idea of how we get from here to there. These are the adjustment issues I was talking about. We tend to neglect the adjustment issues at the expense of the long-term goal. If we implement all these policies, we all thought, "Let's just put all of them in the economy and we will see whatever comes out," and that is what we did. They are extremely disruptive, mainly because what they do is change the type of products that are produced, the type of labour that is demanded and all sorts of things like that.

If you look at the GST—this is why it is going to be complicated—I talked about a change in the demand for goods relative to services. People who work in the goods industry are going to do better and the people who worked in the services industry are going to do worse.

Under free trade, some industries had high tariffs and some did not have any, so the industries that had high tariffs that were protected are in trouble and unless they make adjustments those industries are going to go out of business. There are quite a few; I think of the furniture industry and a few others. Most of us predicted those industries were going to go out of business.

1550

The early tax reform: Some industries were being taxed at higher rates than others. If you level the playing field, you put some of those out of business and introduce others. You are causing the resources in the economy—capital, labour and so forth—to be moved from one sector to another. You are getting three or four different policies that all have different resource allocation implications and you are not sure what is happening. The reason you cannot tell what is happening on free trade is because of the GST, and the reason you cannot tell what is happening because of GST is tax reform or lower government spending. It is all mixed up in there and it is extremely difficult. That is why I am saying the people are absolutely confused.

Mr Carr: I agree, and it is not only the particular issues, it is almost that governments are heading in different directions. One government is heading in this direction because of political philosophy, and we have 10 provinces. What I had hoped would come out about the Constitution is some clear lines because we are pulling against each other in opposite directions. Then, of course, we try to coordinate with finance ministers getting together and political things get in the way.

Your recommendation for the provincial government with regard to the next budget and taxes: Appreciating what you have said, that we have always done it wrong in the past and may have done the exact opposite, looking at the economy as it is right now with Floyd going to bring the budget down in the spring, what would your recommendations be with regard to taxes? I am thinking of the provincial sales tax, the corporate tax and all the various taxes? What would you recommend to him?

Mr Stokes: I would try to be neutral. The stimulated stuff may help somewhat and I guess it depends on how bad the economy really gets. If you are relatively neutral, I think it would be a good policy even politically because everybody will hate you if you go one way or another anyway. If we had done things right we could have stimulated now, but we did not do things right so we cannot stimulate now. How do you get out of this? Probably you would be very cautious about it. Do not cut too much and do not increase too much and sort of try and go through the middle. I know people are going to yell at you because of your deficit size, but we have to remember the feds' deficit went from \$10 billion to \$25 billion in the last recession.

The Vice-Chair: I am sorry, Mr Carr, I cannot allow you another question. Were you done with your answer?

Mr Stokes: All I was going to say was that the federal government has the same problem you have now. You are going to end up with this big deficit and how do you get out of it? That was your point. You are going to have to work slowly out of it. You cannot eliminate it immediately.

You will not get the bang for your buck. If you cut spending or increase taxes you will not get the money back. You will just hurt the economy and you will not get out of it.

Mr Johnson: A most interesting presentation: You are right that many variables have to be taken into consideration when you look at the economy. Having a sincere interest in economics and having actually studied under Sid Ingerman at McGill University—I did not study there but I studied under him for a short period of time—I have come to believe in Keynesian economics. It has never been practised consistently, and only in part, by governments. That is the problem. If it were practised consistently through the boom-bust cycles of economies, it would have the levelling effect it is supposed to have, but it has never really happened.

This government has tried to do that or tried to take some initiatives that would suggest Keynesian economics, and that is by going into the deficit we are in. I think that is good. I believe what you have said, that we will come out of this deficit, albeit maybe slowly. One thing you said was that this recession is not worse than the one in 1982, and as I look at your graphs I can see why you would make that comment.

Mr Stokes: I said “as yet.”

Mr Johnson: Then the question is, could it not at some later point be determined to be worse because of duration and the rate of frequency?

Mr Stokes: If you look at that GDP gap chart, in 1982 there were only two bottom lines. What you could see is a number of them underneath “potential.” What you worry about is the sum of those differences. Your recession may not be as severe in its depth, but if it lasts longer then it is just as bad. In fact, when you want to get into discussing depression, a depression is a recession that lasts longer. That is what I am saying: It has not been determined as yet that it is worse, but if things do not pick up, it certainly could be.

Mr Johnson: What do you think? I will tell you what I think. The government could allow the deficit to become larger. You know what my ideology is. This is not a problem because I think the province has the potential to pay down that deficit over a period of time. I wonder if you could be a little more specific with regard to your opinion on allowing the deficit, in the next year, to go to \$15 billion, for example.

Mr Stokes: It would be unfortunate if it had to. I would prefer it if interest rates were to get to reasonable levels and people pick up on their own. Ottawa found out what happened to a cumulative debt problem in \$50-billion interest payments. I would hate to see Ontario end up in the same position because you will pass your troubles down to your children and their children. I am worried about that because it limits your ability to change the economy. If you have these big debt-servicing payments—the federal government now has a balanced budget on its program spending.

Mr Johnson: They did not send us the \$3.7 billion they were supposed to.

Mr Stokes: We have a debt stock problem. Our revenues are covering our spending in terms of programs at the federal level; what we cannot cover is the debt payments. What is going to happen to Ontario is that if it does the same thing, its revenues may cover its—if we did not have this debt payment, we would have plenty of money left over. Tax rates are so high now because of the debt problem.

If Ontario is not careful it will slip into that mess. What made it worse, of course, for the federal government was that it keeps using monetary policy to fight inflation. If you keep using monetary policy to fight inflation with the high-debt stock you are in big trouble. If the monetary policy had been easier, in the study we are doing we indicate that the feds could have knocked \$20 billion off their deficit by now if they had used a different policy mix.

If you had slowed the economy down by reducing spending and raising taxes, you would not have had the same problem at all. Even if you cut your deficit it may not do you any good because you do not get one for one. By cutting your deficit more, if you drag the economy down when you are doing it, which you will do—no economist will tell you, unless you are a supply sider and they were completely wrong. If you do that, you will not get the money out of it. If you reduce spending by \$5 million, you will not get it because you will take \$5 million out of the economy and you may get \$4 million or \$3 million back.

Mr Johnson: In a nutshell, what is your best advice to the Treasurer today, given the circumstances he finds himself in?

Mr Stokes: I would just try and be cautious. I would try not to let the deficit get out of control, but not to overreact because then you are getting into the problem I just mentioned. You are making the cycles worse. We are getting impatient. This is what governments do every time: We get impatient. We got impatient to get inflation down in 1981 and drove the prime rate to 22%. It devastated the economy. The Bank of Canada this time was impatient to get to zero inflation and we are in a mess again. We got impatient in 1982 about getting the economy going and we overstimulated it. We are getting impatient about getting the economy going now. What are we going to do?

Mr Johnson: That was my question.

Mr B. Ward: Slow and easy; maintain the course.

Mr Stokes: That would be my advice. You are going to be stuck with this deficit; you have no choice. You inherited it to the extent that you have a huge recession imposed on you. It is really not your fault. You cannot reduce the deficit in a recession.

The Vice-Chair: I want to thank you very much for coming in. I know there are plenty of other questions including some I would not have minded asking, but our time has run out. We want to thank you very much for making a contribution to our discussions on what is happening and certainly for giving us a different perspective on how government finances should be operated.

Unless there is any other business, this committee stands adjourned until February 10, when we will continue

pre-budget consultations with specific groups. In the agendas you were given, the ones who have confirmed already—I believe there were four or five more—we were still waiting to get confirmation from for those two. Probably a good portion of the Wednesday will be spent on that and then we will have the day on the budget.

Mr Phillips: Do you know when Chairman Ron will be back?

The Vice-Chair: Chairman Ron is in his riding today. I believe he has a special visitor. Premier Bob is down there. That is why he is not here today. He will be back.

The committee adjourned at 1600.

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LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Monday 10 February 1992

The committee met at 1008 in room 230.

PRE-BUDGET CONSULTATIONS

The Chair: As I see a quorum here, we will continue our pre-budget consultations for the standing committee on finance and economics.

ONTARIO ASSOCIATION OF NON-PROFIT HOMES AND SERVICES FOR SENIORS

The Chair: I would like to welcome you here this morning. You are representing the Ontario Association of Non-Profit Homes and Services for Seniors. Would you mind identifying yourselves for the purposes of Hansard? You may start your presentation. You have a total of 40 minutes. At the end, please leave some time within that 40 minutes for questions from the committee. You may begin.

Mr O'Krafka: My name is Paul O'Krafka and I am president of the Ontario Association of Non-Profit Homes and Services for Seniors as well as being executive director of St Joseph's Villa, which is a home for the aged in Dundas. With me this morning is Michael Klejman, who is the executive director of OANHSS. We are pleased to have the opportunity to do this presentation to the standing committee on finance and economic issues. I will ask Michael to start with some opening comments.

Mr Klejman: Thank you, Paul. Although as an association we have reached the proud age of 72 years in existence, this is our first appearance before a committee of the Legislature to address the fiscal aspects of running this province. We do not bring with us a wealth of financial expertise, because our members have dedicated themselves to providing health and social services to Ontario senior citizens.

Our membership, in total 208 non-profit organizations, is made up of charitable and municipal homes for the aged, seniors' housing, non-profit nursing homes and community outreach agencies. Our members serve over 10% of Ontario's seniors through housing, facility care and outreach services.

As an association, we provide educational, professional development and group services to our members. More recently we have expanded our educational and informational efforts and have aimed them at decision-makers and opinion-makers in the province. We may not be able to offer much economic analysis or insight at the macro-economic level, thus possibly sparing you the need to sift through our comments to detect what our political agenda may be. We do want to leave with you some of our more concrete ideas and recommendations, hoping they will be of value as you deal with one of the toughest budgets in this province's history.

I will present, first of all, some principles we feel are the underpinning of our comments and reflect our views in

general. Our first principle: Most communities have the inherent ability to muster resources and generate the spirit necessary to fend off disasters and help each other in times of crisis. The second principle: Government structures, in spite of the best of intentions, result in confusion, lack of clarity as to the regulations and policies and cause delays to any initiative. The third principle: The process of government in Ontario must be opened up much beyond the current effort to seek input from ordinary citizens, consumers and groups which have lacked in the past access to decision-makers.

In addition to these principles, we want to state our belief that the government must continue its efforts to help the economy turn around. The government must do this in a fair and consistent manner without favouring or penalizing any one group or sector within Ontario's economic sphere.

Allow me now to go back to the three principles and put forward suggestions for measures or directions which may help in moving the economy of this province to a recovery.

Through this budget we should provide incentives to communities to improve their basic service infrastructures such as water, sewers, roads and transportation. These efforts provide employment, utilize locally and regionally produced products and create work opportunities for people least competitive in the job market. This will also encourage local municipal contribution and may make any municipal tax increases more palatable because of the tangible and immediate benefits.

I will stop at this point and Paul will continue.

Mr O'Krafka: Many of our homes for the aged in Ontario are and have been operated by charitable, non-profit organizations. Over the past five years, the cost of providing care to residents in these homes has significantly increased as a result of two primary factors. The first of those is resident acuity or the amount of care required by individual residents; it has increased significantly. Second, government programs including pay equity, workers' compensation and employer health tax have added to the expense side without offsetting additional funding being made available to cover these costs. As a result of this situation, the fees paid by residents in our facilities, together with government grants, have fallen far short of covering required operating expenses. This has resulted in significant operating deficits for many of our member facilities, particularly those operated by charitable organizations.

Prior to 1990, the province had in place what was referred to as an MB20 or Management Board 20 special grant process which was designed to deal with exceptional and extraordinary one-time unforeseen deficits incurred by charitable homes for the aged in Ontario. Since approximately 1984, the same process has been applied to charitable

facilities in the province that are incurring not only one-time deficits but ongoing deficits. While the MB20 process has been appreciated by homes for the aged in Ontario, it was not designed for, nor does it satisfactorily respond to, deficits caused as a result of ongoing operating needs of facilities.

The MB20 process provides facilities with a maximum 70% of incurred deficits, thereby leaving the facility to raise the remaining 30%. On first glimpse this would appear to be a fairly generous approach on the part of government, but in fact it ties the hands of the volunteer boards of trustees and boards of directors of our member facilities. The only source of raising the remaining 30% is from existing reserves or through charitable donations. While many of our members are successful in obtaining charitable donations from the communities they serve, the majority of donors do not wish to donate towards the provision of direct health care, which they perceive to be an insured benefit in Ontario. In addition, charitable facilities are already required to raise from these same donors 50% of the cost of any major or minor capital additions to their projects or facilities. We are extremely pleased that donors have been very willing to respond to requests for capital funding. Over the past 100 to 150 years, many of our facilities have been built through charitable donations and continue to be expanded, updated or upgraded through these charitable donations.

It seems apparent to our membership that government should be prepared to fully fund the demonstrated health care needs of our residents. An argument has been made on a frequent basis by ministry staff that because MB20 funding is open-ended and contributes towards the total deficits, provision of this funding beyond the 70% level would in fact be writing a blank cheque to charitable operators. Our association agrees that government funding should have controls and accountabilities attached to it. What we are suggesting is simply that government share up to 100% of previously-agreed-to costs. This process would allow for negotiated resolution between the agencies and the ministry. The process could also be designed to reward cost-containment and revenue-generation initiatives on the part of charitable boards. The current system creates a significant disincentive when facilities are required to significantly cut staff or reduce services in order to obtain a very small, marginal financial benefit. So in fact, under the current system, good operators are penalized.

In the area of capital projects, in Premier Rae's January 1992 speech he encouraged the federal government to share with the province towards the development of capital projects which would create new jobs in Ontario. His suggestion was that this would be a very good investment on the part of the federal government. We would suggest that in developing the budget, the province could derive similar significant benefits by encouraging capital projects in homes for the aged around the province. These projects would benefit the 29,000 seniors currently living in our facilities, as well as benefiting that element of society that could be re-employed in the process.

The current capital funding structure for homes for the aged provides funding by the province on a 50% cost-

shared basis. Most other programs funded by the province of Ontario for capital projects are cost-shared on a 66%, 70% or even as high as 100% basis. By increasing the portion of provincial funding for homes for the aged projects and by approving money for the projects which are on hold around the province, facilities for seniors could be updated to prepare us for the 21st century while at the same time putting the people of Ontario back to work.

I would now like Michael to expand further on some of the difficulties with the funding of capital projects.

1020

Mr Klejman: The other step which can be taken would be to significantly decrease the bureaucratization of the capital approval process. As we mentioned earlier, private individuals and communities are prepared to donate towards capital projects in homes for the aged.

This may also be an opportune time to rationalize and speed up many of the decision-making, permit-issuing or approval-granting functions performed by the provincial ministries' bureaucracies. We can cite endless examples of projects or programs which are delayed, changed or lost altogether due to delays caused by the multitude of steps they have to go through, as well as jurisdictional wrangles or continuous changes to requirements and guidelines, or the most common scenario, which is lack of consistent and comprehensible guidelines. Why approvals should require more than one or at most two steps is difficult to comprehend, but there is little doubt that costs and time can be significantly reduced through such streamlining.

The governments in recent years and particularly in the last year have made a major commitment to open up the decision-making process and we, as an organization, are still reeling under the onslaught of discussion, draft legislation and consultation papers which we are trying to read, comprehend and react to. We note, however, that in some cases, key decisions and policies are still adopted without the full airing of the facts and data which influence government decisions. It is not uncommon to see the final pronouncements in terms of policies, yet have it be extremely difficult for us to obtain the figures and the data explaining why certain directions are taken. We continue to be told by bureaucrats that we cannot have the information they used to come up with policies, but are asked to comment or offer alternatives. We urge you and your colleagues to shed this outdated process of policy formulation. Put the trust into people, share the information and then ask for input through an open process. We believe the approach taken by the Premier and the Treasurer to put forward the information should be adopted more broadly in the government policymaking process.

With the relatively short notice we had to prepare for these pre-budget hearings, we resorted to an old standby, a brainstorming session, to develop ideas and suggestions for your committee, and we have grouped these under various headings. Some of them you may find more useful in your deliberations than others.

The first is taxation. Our members, like society at large, are of mixed opinion as to whether there is room for an increase in the tax burden on both individuals and corporations. Some

of our members support an equitable minimal increase while others are quite concerned that this may further dampen any recovery.

Employment: Increasing employment will help to build consumer confidence and reduce the burgeoning social assistance roles. Besides direct actions to stem the rising unemployment, like a freeze and/or rollback of wages, the government should review all impending legislation which may increase the operating costs and put further squeeze on employers. Some examples—but these are not exclusive, of course—are health- and safety-related measures. In cases of not-for-profit organizations in the human services field, where salary costs represent close to 80% of budgets, these measures, if not supported by separate grants, usually result in layoffs. The issue we face is whether we need more jobs or fewer better-paying and higher-cost jobs.

User fees: The issue of user fees is an extremely sensitive one, particularly in the areas of health and long-term care. We believe that issues of physician cost and hospital operating budgets are coming under greater government scrutiny, and some more drastic changes will have the desired effect in the long run.

We would like to focus on user fees in long-term care services, which we represent. With the elderly population projected to double in the next 20 years—and this is based on 1981 statistics—we are looking at the government's proposed paper on the redirection of long-term and support services in Ontario, which proposes to eliminate user fees for most services except facility-based care. We believe this concept will result in woefully inadequate services and inequitable distribution of these services. We believe that with the exception of health-related services and care, users should pay according to their ability. Can the public in this province support a system which will provide services for individuals who choose to and can afford to spend several months and considerable funds in Florida, simply because they are 65 years of age?

This brings us to the end of our modest submission. We hope we have touched on the issues of interest to you. We would be glad to answer any questions you have.

Mr Miclash: Thank you very much for your presentation. I have a few questions in terms of the local municipal contributions to some of your non-profit facilities, homes for the aged and ones that are run by charitable organizations. What kind of relief do you get from the local municipal governments on these in terms of land taxation? Does that vary across the province, or is it pretty well standard procedure?

Mr O'Krafka: No, it is consistent across the province for homes for the aged. There is no municipal taxation on non-profit homes for the aged in the province.

Mr Miclash: That is in every municipality?

Mr O'Krafka: Yes, that is consistent.

Mr Miclash: What about the contribution of municipal land for the building of such facilities? What kind of response do you get to that?

Mr Klejman: There is no contribution from municipalities towards the construction, or any capital outlay, in-

cluding acquisition of land, for charitable homes. This is quite different from the involvement municipalities have with hospitals. All municipalities in Ontario are required to be involved in the provision of facility-based care, but they do it through the municipal homes for the aged.

Mr Miclash: I understand.

Mr Carr: Thank you very much for your presentation. I was interested on page 7 where you talked about the capital projects. As you know, some of the premiers who are meeting today are even suggesting they proceed. Although it is interesting, all those who are calling for capital projects—the premiers are saying the federal government should do it. It is a lot easier to spend somebody else's money, I guess, and not be accountable for it.

You talked about some of the funding formulas there and percentages. If the province were to go through with what you talked about, do you have a total dollar figure that we would be looking at? You mentioned doing that and changing some of the percentages. What would the province be on the line for in total cost?

Mr Klejman: We do not have the figure, but I am sure capital projects planners in the Ministry of Community and Social Services have more than ample information on projects that are held up due to lack of provincial approvals. I should point out that the provincial share of 50% is cost-shareable with the federal government, so it would bring both levels of government into the picture. I should also add that a number of charitable foundations that support homes for the aged, charitable homes, are in the position to move fairly quickly with their contributions. They are quite willing to play their role in this.

Mr Carr: You have had discussions, then, with ministry officials. You do not even have a ballpark figure? I do not want to pin you down, but are we talking about \$200 million, \$500 million—even a ballpark guess?

Mr Klejman: When the last initiative in the capital redevelopment was announced of about \$100 million, that was committed within several months, and there was another amount of at least \$50 million still waiting. My hunch is that we are looking at at least \$50 million to \$100 million to be split 50-50.

Mr Carr: I was interested too on page 8 where you touched briefly on some of the redirections. We had a meeting in my riding where the people talked about some of the plans. As you know, what has come from the discussions is that we will be looking at fewer facilities and more in-home care and so on. Again, the big problem is that we are talking about a concept. We really do not have dollar figures, and many people are saying this is just a preliminary step. One good thing is that at least the public is now aware of where we are heading, then we can tie down the details. Do you see that changing your role in any way and, if so, how? Again, without knowing the dollar figures that are going to be coming into it, how do you see your role changing with the paper that is out there?

Mr O'Krafka: We are extremely concerned with some of the issues in the paper. As Michael mentioned earlier, there are a lot of unknowns in that paper in particular, where

we have not had access to the information that is available. We have had no access yet to cost figures.

1030

Some of the costing we have done ourselves indicates that there are going to be significant increases in costs to keep many of the people in the community. A lot of people who are in homes for the aged right now receive no government funding. When the province recently did a study using Alberta, it suggested many people being cared for in facilities could be returned to the community. Our initial assessment is that the majority of those are people in unfunded beds in homes for the aged at this point in time, so the province is going to be incurring costs to keep those people in the community, to send them back, but there are not going to be any offsetting costs by discharging them from homes for the aged because many of them are paying their own way in the facilities they are currently occupying.

Mr Klejman: If I may just follow up with a comment, it is a misconception, a myth that has existed for several years now that this province is overinstitutionalized, particularly when we look at the elderly population. Current figures suggest that we are on a par with most jurisdictions both in North America and in Europe. Looking at our demographic projections and if we remain even at the current level of facility beds right across the province, we will be among the lowest in another 15 years, so we are not concerned about our mandate or focus. We believe the need for facility-based services will continue and that their nature will change.

I also want to reassure you and members of the committee that for years now many of our members have been offering a full range of services: apartment living, totally independent apartment living, supportive housing living and outreach services to seniors in the community. We have had members with waiting lists for the last five and 10 years who realize then there is no way facility beds can meet the needs of all the seniors.

Our association has taken a firm stance, believing that all the seniors who can be supported in the community should be supported in the community. So I do not think we differ in perceptions of these.

Mr Carr: As I look around this room, most of us will be hitting that time period when there will be a tremendous explosion of people needing these services. Unfortunately what happens is that I get calls, as we as MPPs all do, when somebody needs to get his or her mother or father into one of the homes and says: "Don't you realize what a crisis there is? There's a waiting list and we can't get in."

One of the concerns I have is, again, meeting the needs. As a non-profit organization, what role do you see for people in the for-profit in order to meet those needs? Can we do it only with non-profit? You touched a little bit on some of the services that are doing it for profit now. How do you see yourself working with the people in the for-profit sector, and is there good cooperation? How do you see it working?

Mr Klejman: We have taken the position in the past that provision of care to persons who are most vulnerable should be in the hands of the non-profit sector. That has

not changed. I think we have communicated that to a number of ministers who were involved in the human services field in the past year.

The cooperation where it is most effective and most necessary happens at the local level, where a crisis or demands like the ones you have referred to necessitate that administrators of facilities work together to find suitable placement in emergency situations. I believe it happens and it will always happen. Whether it is in the facility sector or in the community outreach sector, the relationship and understanding between the for-profit and not-for-profit organizations is there and continues.

I think the issue that is more difficult to deal with is, how can the province provide capital funding to for-profit organizations on the same basis as it does to non-profit, where you acquire equity, ownership in a non-profit facility? I am not sure how the province will handle that in the for-profit sector. Similarly, there is the issue of whether there will be a legislated margin of profit for the private sector operators. These are the issues we do not have answers to, and I am pretty sure you will have a difficult time, as the provincial legislators, to come up with an easy answer.

Mr Sutherland: First of all, let me say there is no need for you to be apologetic about your "modest" presentation. If this is a modest one I hope we get more modest presentations, because I think you have highlighted the issues and the concerns. Your points are well put together and you deal with some specifics and some good suggestions.

I just want to pick up on the one comment you made that we compare favourably or relatively the same with other jurisdictions in terms of institutionalized care for the elderly. Does that break down in all types of care, that we are relatively the same, or are there specific types of care where we are far lower and other areas where we are far higher?

Mr Klejman: Because various jurisdictions label and define the types of beds they have differently, the only comparisons we have seen are for the total sanctioned beds. So we would be looking at chronic, extended care and residential care beds in this province in comparison to whatever sanctioned beds there be in BC, Manitoba and Quebec; also, comparisons with Sweden and Great Britain put us on a par with them.

Mr Sutherland: I have just one other comment, and maybe we could ask research to look into this: the suggestion again about infrastructure. I guess I get a little confused when people say "infrastructure" and say, "You know, we should be doing things for water, sewer, roads." Here we have construction of institutions as well. I was wondering if there is any way research could find out for us what is most labour-intensive. I look at some of these and I think it seems like it is a good thing, but the proportion of it being spent on people actually working is very low. I was wondering if we could have that for those different sectors, and maybe some indication of the estimates of the ripple effect on those types of—you know, if we put it into sewer, does the dollar go five times or four times versus building an institution or something like that?

Thank you very much for your presentation.

The Chair: We have some time left here. Do any other members of the committee wish to ask any questions? Mr Carr, do you have any more questions?

Mr Carr: Yes, I had one more. On page 10 you talked about one of your biggest costs being the cost of wages; I think you said about 80%. Municipalities are virtually in the same boat, and school boards and so on. You talked a little bit about being able to control those costs, like a freeze and rollback of wages. What would you say would be fair for the people who work for you in light of the situation? What are you looking for in terms of increase: 2%, 3%, a freeze, a rollback? What would you like to see?

Mr Klejman: Without being too greedy, I think what we need is a little more flexibility. I think, as we were chatting just before the meeting began, what is particularly worth noting in homes for the aged is that the client contributes a substantial amount towards the cost of operating facilities, to a great degree. As the level of income available to consumers using those facilities' services increases, their share increases.

It is quite conceivable that in the year of 1%, there may be some homes for the aged which will ask not a penny more of the province towards their operating budgets. On the other hand, there are others, like the ones that Paul was referring to, which are in dire situations, running multi-million-dollar deficits, and they are tied by the current funding systems.

I think we recognize that money is scarce. We are not going to sit here and say we believe everyone should get 8% or 9%. That is not realistic. What we are asking for is that there be some flexibility. In those situations where homes or municipalities can manage with 1% or 0%, then let that be, but in other situations where they need either additional special grants or a higher budget approval for the year, I think there should be flexibility to do that as well.

Mr Carr: What is your sense from the actual front-line workers about what their perception is? Are they giving you any feedback? One of the problems we have is what has happened in the hospital sector, where nurses got large raises and now a good portion of them—we understand Joseph Brant Memorial Hospital in my area is now going to be laying off people. What are the front-line workers saying in terms of what their demands are? Are they still demanding, as are some of the teachers in Toronto, for example, "No, we still want our 5%"? What are the average workers saying out there on the front lines?

Mr O'Krafka: The workers and the unions we are dealing with I think are fairly reasonable and fairly understanding of the situation. What they want, though, is to be treated equitably with other segments in the communities they are part of. That is what many of our charitable homes for the aged face. I know in my own facility our lowest-paid workers are earning \$1.50 less than the municipal home down the street simply because the money has not been available through the current funding formula. There needs to be some balancing within the system and, as Michael said, some flexibility. I think the workers are realistic at this point in time in their expectations.

Mr Klejman: You brought up the example of last year's settlement with nurses in terms of nurses in the hospitals. It is ironic that the greatest impact of that settlement is on homes for the aged. Homes for the aged tend to be long-term employers. Most of the RNs working in homes for the aged have the seniority that is so well recognized in the recent settlement, which means homes are the ones that are experiencing the greatest impact of the substantial increases for nurses with long-term service.

Mr White: I am curious. In your presentation you did not mention the issue of capping. Is that because your group does not represent the municipally run homes for the aged?

Mr Klejman: We do represent the municipal homes as well as the charitable homes. We feel the issues we have raised in terms of recognizing the cost of doing business address both municipal and charitable homes, specifically when we talked of the need to recognize the additional costs of safety-related legislation and health-related legislation and to provide additional funds to offset the impact of that legislation. We feel that would benefit all the homes for the aged, whether they are municipal or charitable.

Mr White: Is your suggestion that there be a user fee or that that issue be looked into for a range of services for the elderly a reflection of the municipal homes as well as the charitable homes?

Mr Klejman: Yes.

The Chair: I would like to thank you gentlemen for your presentation before this committee.

The clerk is presently out in the hall checking if the next group, People Against the NDP Budget, is here. The committee will take a five-minute break.

The committee recessed at 1043.

1047

PEOPLE AGAINST THE NDP BUDGET

The Chair: We will continue with the pre-budget consultations. The next group is People Against the NDP Budget. Welcome to the standing committee on finance and economic affairs. Please identify yourselves for the purpose of Hansard. I think we have 35 minutes left. In that period of time, after your presentation, please leave some time at the end for questions from the committee.

Mr McBride: My name is John McBride. I am a spokesperson for People Against the NDP Budget. This is Loudon Owen and this is John Slattery. I want to first define our constituency. People Against the NDP Budget represents a wide range of Ontarians. Although sometimes branded as a business lobby group, the people represent a broad cross-section of concerned citizens in addition to prominent members of the business community.

Ours is a group of ordinary Ontarians with no political affiliation; people who want to remain Canadian and want to remain in the province; a group that came together on Friday, May 3, 1991, because we wanted to create an opportunity for the people opposing the budget to be heard, as there seemed to be no other venue or opportunity. We represent a broad cross-section of the province. We are speaking out for ourselves, but not necessarily for the organizations we

work for. Many of us are self-employed. We are people who feel that the April 29, 1991, budget was fiscally irresponsible.

Our group, we believe, is unique as it is a general interest group, in marked contrast to the plethora of special interest groups that are around. Our concerns are with the future of Ontario and not with lobbying for private objectives.

In order to appreciate the extent of our support and the commitment to our members, the following is an outline of actions we have taken to date. We held two successful rallies at Queen's Park which attracted thousands of concerned citizens. We appeared on most major public interest shows on radio and television. We received in support over 3,000 callers and 12,000 letters. We have participated in all committee hearings to date on the budget. We participated in a round table discussion set up by the NDP. At Floyd Laughren's invitation, we presented proposals to him at a private meeting in September 1991 that would have significantly reduced the deficit while maintaining Ontario's social services. We have been generally active in the public press as advocates of fiscal responsibility. We have distributed information throughout Ontario to various supporting groups. We have served as a liaison with other groups adversely affected by the budget.

In addition we have supported other groups at various rallies and discussion groups, met a host of economists and experts in public finance to assess and discuss the first budget and, what is important, commissioned two polls by Decima and Environics that indicated two thirds strongly agree that the provincial government should balance its budget over its term and, second, that 80% believe the foregoing should be included in the ballots of municipal elections.

At the core of our group are the following beliefs:

1. The government's role is more facilitator than provider.
2. A prospering economy provides opportunities for social change.
3. Individuals should have maximum choice and freedom.
4. Social support should be effectively targeted.
5. Efforts should be directed at the cause, not the result, of problems.

The purpose of our submission today is to explain the concerns that ordinary Ontarians have in connection both with the budget and with the budgetary process, which is important. We will make specific recommendations as we have done in the past, although I do not know to what end. In addition to identifying general concerns and establishing a framework for analysing the budget, we believe it is of great importance that the budget not be treated in isolation but be part of a concerted and coordinated effort to improve the economy and ensure future prosperity. Accordingly, we feel the need to highlight the problems and concerns generated by the government of Ontario to date. These concerns need to be fully addressed by the government.

I am now going to turn over our comments to Loudon Owen, who will deal with the concerns and directions of Ontario.

Mr L. Owen: My name is Loudon Owen. I am also one of the spokespersons for People Against the NDP Budget. Our name is somewhat self-explanatory. I think we are going to expand upon what John was saying here and explain why it is not appropriate to look at the budget in isolation and what concerns we have with the direction Ontario is going in.

Everybody in the room and everybody in Ontario knows it is a very tough period of time. It is tough for the Ontario government and it is tough for the people of Ontario. However, we think a host of problems has been created by the current governments and that these problems have not been addressed.

Ontario is being forced through a transition; many economies are. Our concern is that Ontario is not being put in a position where it can respond and in which that transition can be facilitated. It is being put in a position where that transition is being impeded. Ontario has not been able to develop and change the way it has to, to survive and prosper in the future.

I would like to identify some areas of concern. These are just representative areas we have come across in our dealings and our reviews of what has been happening.

Lack of fiscal responsibility: This does not appear to be a pressing concern of the government. By the way, I would like to emphasize we are speaking on behalf of an awful lot of people here. It is not three people sitting in front of you who have concerns who have typed this up. We represent one heck of a lot of people who have serious concerns. Fiscal responsibility does not seem to be on the top of the hit list. There are a lot of nebulous issues that have come up that of course bear examination, like the social charter and other concerns the provincial government has and some other areas which we will get into later. Fiscal responsibility, making sure you have control over your finances, does not seem to be at the top of the list and that is certainly at the top of the list of a lot of people across Ontario right now.

Ontario's economy is under attack. I am a lawyer. Every day I get information sent to me on what the benefits are for business moving out of Ontario. Last week the Buffalo Chamber of Commerce held a meeting. They had a roomful of lawyers, all of whom paid to be there, lawyers and accountants and other professionals, all being advised as to the tremendous benefits of moving down to New York state. This is not in isolation. Pick up the newspaper, read the ads and see how many different states are targeting Ontario.

Next, I would like to talk briefly about problems with the proposed legislation. Again, this is not news but it has not gone away. These problems and concerns are pressing. Every time somebody tries to make a decision as to whether they will expand in Ontario, whether they will stay or come in, these are at the top of the list. Employment legislation has been perceived to be extremely hostile to business. Bill 70, which was proposed and now has been put on the back burner again, scared the pants off a lot of people. There was the fiasco surrounding car insurance, there were the initially unreasonably high public

sector settlements and finally, the result of all this, the failure of Ontario to address the downgrading of its debt.

I think a lot of the actions taken so far have been incompatible with growth or revival. The perception is that Ontario is not open for business. Again, I urge you to go to one of the meetings where all the business people, lawyers and other professionals attend and see them being lured out of Ontario. This is something that will have long-term ramifications.

The second issue is failing to face the issues clearly and simply passing the buck. It is very easy to talk about the problems that surround us right now in terms of the recession and global competition. The free trade agreement is constantly being pointed to. The free trade agreement is a reality. It exists. It has to be dealt with. Business across Ontario is facing it today. And 45% of the federal revenues come from Ontario so, in a sense, going to the feds for a handout is passing the buck. If Ontario is not pulling its weight financially then there are limitations upon what the feds can do. But even more important—what our group is talking about—if we are being taxed by the federal government or being taxed by the Ontario government, it does not make a damn bit of difference: We are still being taxed and we are paying for it.

The next thing I would like to highlight is the polarization occurring across Ontario. Another thing we have experienced directly is that Ontario seems to be experiencing lines being drawn: Labour is on one side; management is on the other. There have been a host of statements where the government and various representatives of the government have spoken about how this should not be the case. We agree. Unfortunately we think this is the result of the labour legislation that has been proposed. It has caused some severe problems across the province. It was also highlighted in the most recent municipal elections in the Toronto area. If any of you attended the meetings and saw what sort of discussions were going on, you saw they tended to be incredibly polarized. That is not the atmosphere we need to create a better Ontario.

Last—this is something one hears on a recurring basis, and it is true—is the whole concept of excessive regulation, the degree of intervention of governments in our private lives and in our business affairs. That is something that probably everybody in the room gets offended by, gets frustrated by, and I just want to underscore it here.

I am going to step into the second area and then pass it on to John Slattery. I will briefly talk about the Ontario Fiscal Outlook that was recently released. The issue I want to talk about is the openness of the NDP. There has been, I think, an admirable position taken that the NDP is an open government. We think it is tremendous: the idea to go to the populace to deal with their concerns directly, to listen to what they have to say. That is what has been vocalized, but is it true?

When the outlook was to be released and Premier Rae was to speak on television, our group asked to be part of the lockup. To us it was important because we knew we would be asked to comment on the contents of that speech. We were refused. We asked a second time; we were refused. We asked a third time in writing; we were refused.

We then asked the reason for the refusal. We were told that only the interested parties would be admitted to the lockup. When we asked who the interested parties were, we were told they were the transfer payment recipients.

Unfortunately, and I think it is unfortunate, we had to take steps that were perhaps considered dramatic: We took the government to court. We launched an action against Premier Rae, Floyd Laughren and the government, asking for status to attend at the hearings. It did not receive widespread publicity because it was settled in the courtroom over the telephone. There was a telephone right in the room. We were finally admitted. Also, the lockup was expanded to allow in business groups. I think it typifies the problems we have faced with the government: There is a complete lack of respect for the business community. The people paying the money in were not considered interested parties; the people receiving the money were.

A second example is that we met with Treasurer Laughren in a private meeting in September last year and presented to him proposals which we had worked very hard on and which we thought were reasonable; we have not heard anything back. We also asked a series of questions, and we have heard nothing back.

Those are my questions. I would like to pass it to John Slattery.

Mr Slattery: The first area of concern I want to allude to is the change in the accounting procedures being proposed. I am referring to the way capital expenditures are going to be treated in future budgets. Though we agree with the concept of trying to bring a more realistic approach to accounting for long-term investments, we have some concern about how this is going to be accounted for in the current procedure. There seems to be a desire to take out of the bottom line, as it were, total cash expenditures on capital expenditures in any one given year. We fear that will mislead the public as to what is the true deficit in any given fiscal year and understate the amount of moneys the government is actually spending on behalf of the taxpayer.

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The second concern is basically with the budget's credibility itself. Primary to any kind of confidence-building that this process or any budget is going to have is the need for credibility. First and foremost, it needs to be credible, and that will foster a sense of confidence.

Last April's budget made an attempt—it was quite an ambitious goal—to forecast for the entire term of the NDP government. They have revenue projections, expenditure projections as well as growth numbers. Last year, the numbers in April had the economy shrinking by 3.3%, I believe, before it grew this year by 3.4%, rather ambitious, and we felt so at the time. What was of even more concern was that last year revenues were expected to grow in 1992-93 at 130% of the underlying economy. The document itself acknowledged that typically revenues increase at only 90% of the underlying economy. Also, in the most recent document there is recognition that revenues are slow. There is a lag time between when the economy increases and revenues increase.

So our point was—we made this point last year when we were in this room—that the revenue projections were unrealistic and that they were going to demand tax increases just to meet them, even based on the overly optimistic growth numbers. Those growth numbers are not going to come in this year. We see the situation where the no-change deficit is going to have a revenue shortfall in the neighbourhood of \$5 billion. That is a significant dollar.

What we are trying to impress on the government is that the document has to be credible. Revenue-expenditure predictions have to be realistic. They have to be cautiously produced. They cannot be overly leveraged on one particular aggressive growth number. As I say, we need that reasonable, balanced document before we can develop some credibility, before we can develop some confidence. This is confidence not just of the domestic investor but of the international investor as well.

Some specific examples of fiscal mismanagement or areas where we think that expenditures are probably not being prioritized appropriately are listed in 4.4.

The first one is day care. Here we see a situation where we have two systems working, coexisting, satisfying the need of a certain segment of the population. The government has decided that private day care is philosophically undesirable and is making every effort to eliminate that industry, at vast expense and cost to us. We do not think that is appropriate.

Housing costs: Again, this is something where expenditures have risen significantly and, we believe, beyond what is required. We think if support were better targeted, if individuals who truly needed help were identified more effectively, then a great deal of saving could be made in that area.

Government salaries: Again, it is in the document that 45% of all government expenditures are chewed up in salaries and benefits. It is a very large statistic and we think the government has been slow to check expenditures under its own charge.

Fairness in tax: This is something that is getting quite a bit of press now as the NDP has initiated its fairness in tax investigation. We also believe there is a fairness to the taxpayer, the individual has a right to expect that additional work should be awarded with additional money. The tax system, though it should be progressive, I quite agree, should not be a disincentive to work and develop. I fear that is the approach or the direction our current tax system is going in.

We have some general recommendations.

The first is the need for fiscal responsibility, not only to get control of budget deficits, not only to ensure that there are sufficient assets available to satisfy the truly needy in society, but also to develop and instil confidence both domestically and internationally.

As a government, the NDP policies should contribute to all constituencies.

We also have a companion document where we highlight several areas of recommendations. We believe skills development should be emphasized over welfare payments. We believe the housing stock and housing subsidy are an across-the-board, blanket approach that is very

badly directed and misses the mark a great deal of the time. We believe that although efforts have been made to establish some kind of program evaluation process, it has not been done with a mandate that is strict enough. By that I mean, is this particular legislation going to impact on our competitiveness? If so, how much, and is that an acceptable cost to this particular legislation?

Last, I guess the point is that a government that is intent on shaping society must recognize that social changes intertwine with any kind of economic policy and that they are symbiotic. If you try to do one at the expense of the other the entire system will fail, and I think that is a failure for all members of that society.

In conclusion, we are making a heartfelt plea to the NDP government to address these concerns. We request that the NDP rethink its approach and bring forward a fiscally responsible budget that reflects sound economic and social judgement. A budget is needed that promotes permanent job creation, not higher taxes, that encourages investment in both capital and labour and that is not a disincentive to invest in work. We grow increasingly concerned about the damage Ontario's government policies will have on our future wellbeing, along with hundreds of thousands of our fellow Ontarians. That concludes our formal portion.

Mr Carr: Thank you very much for your presentation. I think some of the work you have done has paid off. I firmly believe that if some of the groups like yourselves had not taken a tough stand like you did last year, the government would not have implemented some of the things it has to try to control costs. We called for a 2% cap on the wages last year and this year we get 1%. It is a year late. It cost us \$1 billion but we got it eventually. I remember watching them in the House saying, "No, we can't do it on the backs of the workers." A year later they are starting to listen.

I was interested in your comments on capital expenditure. As you know, some of the premiers are calling for it in their discussions now in Ottawa, and some groups are saying, and this government is saying that if you do it for capital expenditure reasons it is great; you can spend it and divide it up and somehow the public will not see it as being added to the deficit. I bet next year we are going to see that. We are going to see capital expenditures on one side in the operating and we are going to see a deficit, and people are going to see it down to \$8 billion and say, "Oh, great, they've done a good job."

Could you just expand on what you would like to see happen now? Historically what has happened is that you do capital expenditures in bad times. The problem is we that did that and spent and taxed and borrowed during the good times as well. Looking at what the premiers are doing now, should we be going into massive capital expenditures at this period in time?

Mr L. Owen: We will divide the answer into two parts; I think there are two parts to the question.

The first thing is our concern with the cash to accrual, the shift. I hope everyone puts their pens down, because I do not want it written down. Right now we are talking

about different capital expenditures and amortizing them over a 20-year period. First of all, 20 years was arbitrarily chosen and is unnecessarily long. It is not consistent with anywhere where they amortize these capital expenditures.

Second, I am not quite sure what capital expenditures are. The next thing that will happen is that there will be human capital expenditures. We all agree that human capital is as important, so why are human capital expenditures not amortized over 20 years? The whole trend is in a very dangerous direction.

The second thing is, our concern with disclosure of the expenditures is with the general public; it is not with the analysts, it is not with the analysts on Wall Street. Believe me, they know what is happening. It is not the analysts on Bay Street; they read the documents closely. It is the average person who looks at the numbers in the paper; the average person is offended when he or she sees billions and billions of dollars in deficits. As the number gets lower we think their level of upset and concern will get lower and we do not think it is being fairly conveyed to them.

Then, if John would like to address the expenditure issue itself.

Mr Slattry: Efforts have been made and they have had dubious success about trying to turn the public finances into a more privately recognized means of accounting. Any efforts by Organization for Economic Cooperation and Development and other organizations that have gone towards that end have indicated that the current deficit could be far worse. What I mean by that is if you are trying to depreciate your current stock of assets—and that would be taking it to the logical extent—the current effort is a halfway approach; it is not one and it is not the other. I think what is important is that the public gets full disclosure of all the moneys being spent in any given year and what the future obligations of those moneys are. Certainly capital expenditure in public goods does provide a net benefit. The question is, what is a net benefit and to what extent? A road is tremendous, but if it goes nowhere and there is nobody at the end of it, it produced some short-term jobs, but what is the long-term economic value of that? I think all the information needs to be made public. None of it should be hidden or distorted.

There is the other question about approaching the business cycle, which I think is probably what is most on this government's mind as opposed to dealing with the long-term structural factors that will impact economic growth. Government has very little control over the business cycle. It does however have meaningful control and influence over the long-term factors of production, and it is those things we would like see the current administration focusing more of its attention on.

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Mr Johnson: As I listen to you and as I re-read this document, I see a lot of holes in it, quite frankly. It is not intended to be balanced; it certainly is not that. I would like to get a better idea of whom you represent. You have not really well defined these ordinary Ontarians that you represent and you were not specific with regard to how many people you represent. I would like to better under-

stand that, quite frankly, because some of the things you say—I have ordinary people in my office who would argue with you, as well as myself. I am just very curious to know if you could be more specific, if you could give me some more detail and better define the people you represent.

Mr McBride: What we meant to do at the beginning of this document was set ourselves apart from other interest groups that may be specifically representing their own interests, whether they be business or otherwise.

We were founded on a grass-roots basis just subsequent to the April 29 budget, and as far as the people we represent, I would say in numbers we had over 7,000 out at our second rally, over 4,000 at the first rally, and as we mentioned, we launched a letter campaign where we had 12,000 respondents from people across the province. We do not have a membership roster, and it is hard for us to give you a specific number other than to say that we were formed specifically to provide a platform for those people out there who were frustrated with the process and with the budget to voice their concerns and their opposition to it. We have liaised with many different groups, from the day care workers to the truckers and so on, at our rallies. I would say there is definitely a large business constituent, a lot of the people who streamed up University Avenue if for no other reason than because of the geographical closeness to where the rally was and the fact that it was warm. But we also, as is evidenced in the 12,000 letters we presented to Rae, represent people from all walks of life throughout the province. To sum it up, I think we are a grass-roots group that provides a platform for a variety of different concerned groups.

Mr L. Owen: I guess the answer is that we cannot give you a number, and I am sure you would have a hard time giving us a number as to how many people really support you. The numbers we can give you I think are very impressive. It shows how many people attended rallies. It shows how many people phoned in and wrote in. Geographically, we have had speeches across the province. We have spoken from Ottawa to Sudbury to west of Toronto. It is not something restricted to Toronto.

Who are we and where do we come from? We are not being paid for this. When we say we are ordinary citizens, that is what we mean. We work for a living and we pay our taxes and we work hard and we care about the future of Ontario. That is really who we are.

Another point is the purpose of our document. You say it is one-sided and full of holes. Let's be clear on the purpose of the document. That is really why it was included in the agenda. We are scared. We are very scared about the future of Ontario as it stands right now, and every day—we do not have people who have to come to us pandering for handouts and asking for special treatment. We have people come to us asking for objective advice. For example, I am a lawyer. People come to me and they say: "Should I stay in Ontario? What's happening? What direction are we moving in?" The problem I face every single day is the extensive concern about Ontario's future.

I personally am very concerned and scared about the perceptions that are governing right now. Rational or not,

correct or not, business—and we are talking about business now—is driven by perceptions, and the perception right now is that Ontario represents probably the most hostile jurisdiction in North America for business.

The Chair: Mr Sutherland, one quick question. One minute.

Mr Sutherland: First of all, even though you do not recognize yourself as such you are a special-interest group. You talked about this perception of being antibusiness. I just had the Minister of Energy give a cheque for \$300,000 to a local manufacturing company in my riding so it can put in new energy-efficient equipment to cut its energy cost by 20%. If that is not working with business and helping it to be more competitive, I am not sure what it is.

I want to deal with the intervention issue. Everybody complains about intervention, but people do not seem to understand why we have regulations. It is not just because people are sitting there every day thinking what new regulation they can make up to make life difficult. Regulations are established in response to a problem, and we as law-makers usually have to deal with the problems. The majority of people do not break the law or cause the problems, but unfortunately we still have to deal with that issue. Laws and regulations are established in response to a problem, not to create a problem.

Maybe Mr Phillips will give some of his time for the answer.

Mr Phillips: No. I appreciate your thoughtful presentation here and I just want to make a couple of comments and ask you a question. I totally agree with you on your observations on the capital, and in my opinion it is a misstatement. They are going to spend probably \$16 billion to \$20 billion on capital over the next four years and only show maybe an expense of about \$2 billion. I think they should be showing every year essentially the depreciation charge, spending more in some years and less in other years. I think it is a distortion of the books, but that is done and I appreciate your observation on the budget credibility. I think you are bang on. The latest nine-month statement will prove to be just a document that people will begin to kind of make fun of, because if you examine that it will also undermine the credibility. Those observations on page 5 were very timely.

My question is, have you had a chance to look at what I think will be the economic renewal plan of the government it will announce? It will be the worker ownership stuff, the venture capital stuff run by the unions, the use of public pensions for investment and the Ontario Training and Adjustment Board; all the training and skills development will be put into an independent arm's-length agency with probably a \$2-billion budget that will be jointly managed by the unions and business. I think that will be their economic renewal plan that we will see announced probably in the speech from the throne. Has your coalition had a chance to look at those and comment on those cornerstones of the plan?

Mr Slattery: We certainly looked at some of it in the three areas there. The latter I think is probably the most important in the long term, being the education and getting

labour, business and educators working together so that we are providing the economy with the skills and trained individuals that are necessary. I think that probably has some very long-term benefit.

The idea of absconding with future pension moneys that are supposed to satisfy future pension obligations and directing them into public expenditure is a somewhat frightening concept. The Alberta government had a disastrous attempt with its heritage fund, with the oil revenues that came in. They were supposed to invest that, diversify their economy and live on that and it all evaporated, that does not seem to be the case. I am very suspicious of the government's ability to actually pick industries, let alone companies, that will do well.

The employee share ownership may have some value but there again it is to one special interest group. You have to satisfy some very strict requirements. I do not believe it is evenhanded and I do not believe it will be a very effective approach. It is probably more cosmetic than meaningful and it will not really address the mainstream industries that we rely on. Typically, the industries that are going to benefit by that are the ones that are failing. I am not certain whether they should not be allowed to fail. We need to keep vibrant industries here vibrant.

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Mrs Y. O'Neill: Are you represented on any of the tax commission working groups?

Mr L. Owen: No, we are not.

Mr Slattery: No.

Mrs Y. O'Neill: I just wondered; I think you should be. The three changes in the budget direction we had before the actual third-quarter result came out: What is your perception of what that did to Ontario, the economy or the perception of the Ontario economy?

Mr Slattery: I am not certain. What changes are you referring to?

Mrs Y. O'Neill: The changes that were made by this government before we actually got the third-quarter report. Mr Laughren came in with two new fiscal statements. I think it was one after two or three months and another one after two or three months.

Mr Slattery: He made that announcement in September about having to adjust and appeared to be pretty superficial there again too. All he was doing was delaying much of the expenditure to the next term, and then it turned out the reason for the delay was not because they wanted to save the money but because they had not passed the legislation required to spend the money—very little credibility or engendering of confidence.

Mrs Y. O'Neill: What effect does this have, in your perception?

Mr L. Owen: I think the major effect and the most important thing is just the whole lack of confidence. If there is a problem, recognize it and deal with it, and that is not what is happening. Like it or not, people do pay attention to what is happening with your decisions. People read them very carefully and people analyse them, and they are looking for some hope and they did not get it.

The Chair: I would like to thank you for appearing before this committee, gentlemen.

CANADIAN MANUFACTURERS' ASSOCIATION

The Chair: The next group we are calling on is the Canadian Manufacturers' Association. Would you come forward, please. I would like to welcome you to the standing committee on finance and economic affairs pre-budget consultations. If you would not mind, please identify yourself and who you represent before this committee.

Mr E. Owen: I am Eric Owen, director of taxation and financial issues for the Canadian Manufacturers' Association. With me are John Carlos, who is director of taxation for Du Pont Canada and chair of the Ontario division taxation committee, and Dr Jayson Myers, who is the chief economist for the Canadian Manufacturers' Association.

When you look at it, the objectives of the Canadian Manufacturers' Association are the same today as they were when in 1987 one small group of manufacturers looked at the future and foresaw the importance of industrial expansion. They knew that domestic markets alone could not provide sufficient opportunity for growth, nor could Canadian industries successfully compete abroad without nurturing at home. Today the CMA is a national bilingual organization with more than 2,500 member companies, of which 1,400 are Ontario companies. It is difficult to say the number of 2,500, but when you review this and consider that the members of CMA manufacture 85% of all the goods manufactured in Canada, perhaps that gives you a better realization of what the Canadian Manufacturers' Association is. All of these companies vary greatly, both in size and they do represent all facets of manufacturing.

The association plays two vital roles. It monitors domestic and international government policies for manufacturing and it provides member companies with extensive information needed to operate effectively in today's highly competitive and rapidly changing world.

I would like to call on Mr Carlos to make an opening statement for the Canadian Manufacturers' Association about the document which we have tabled with the Treasurer, and I believe members of this House committee also have copies.

Mr Carlos: Thank you for the opportunity to appear before this committee and to provide our perspectives on the issues facing manufacturers in Ontario and our views on how we, the manufacturing sector, and you, the members of the Ontario Legislature, can work together to move forward out of this current economic problem to greater prosperity for all of Ontario.

I left my glasses back at the shop and I cannot really see too many of you other than blurs, so if you ask a question, please bear with me if I sort of look around.

What I would like to do is just cover some of the points of our submission, then leave you the opportunity to expand any points you would like and we will try to answer.

We, the CMA of Ontario, believe that the economic recovery in the short term depends on the turnaround of the general economically distressed financial conditions of Ontario industry. That will in turn stabilize employment

and hence consumer confidence. A sustained recovery requires investment in new products and process technologies, new machinery and equipment, continuous improvement in the skills of our employees, searching out and capturing new market opportunities and delivering superior value to our customers, better than our competition. Our success in this endeavour will lead to more highly satisfying and highly-paid jobs and general prosperity.

The manufacturers of Ontario have proven they can rise to this task of providing high value to our customers, employees, shareholders and society generally, and we will do so again. But we need a provincial government that is willing to work with us, not against us; that demonstrates leadership, ingenuity, drive and commitment to establish and sustain a fiscal environment in which manufacturers are supported, encouraged to innovate, invest, take risk and grow.

Before I outline some of the forms of this leadership the government can take, let me describe the manufacturing situation today.

Manufacturers are suffering the most severe economic decline in postwar history. The recession in manufacturing has a profound impact in Ontario, considering that a full 50% of the economic activity of Ontario is driven by manufacturing. The severity of our recession is measured by the fact that 250,000 manufacturing jobs have been lost since mid-1989. That is a full 21% of our workforce. Cash flows are down 50%, a full 20% in 1991 alone, and our profit margins are at an all-time low.

At the same time, manufacturers continue to pay a greater share of their corporate revenues in the form of income and non-discretionary taxes. Corporate income taxes paid or payable, that is, cash taxes, increased from 30% of our before-tax profits in 1989 to 56% in 1991. In Ontario the provincial income tax accounts for 22% of manufacturers' earnings before tax. Non-discretionary taxes that must be paid even when manufacturers are losing money increased 15%, while our sales revenue declined 6%. Municipal taxes were up 10% as the provincial government passed on an increasing share of the fiscal burden to municipalities. These costs have to be borne by ratepayers and businesses together. This increased tax burden results in manufacturing employment and investment both suffering as we divert an increasing share of sales revenue to taxes.

The manufacturing situation is further aggravated by increased government deficits and the resulting impact on interest rates and competition for scarce capital. Since 1988 government financing—this is all levels of government—requirements have increased from 8% of private savings to 25% as more individual and business savings are being channelled into financing deficits. A significantly smaller proportion of savings is available to the private sector for investment and productive assets. The Ontario government knows the difficulties small and medium businesses have in obtaining credit for investment. The Ontario government's deficit is part of the problem.

To reiterate, manufacturing in Ontario is severely weakened. Until the financial position of Ontario manufacturers begins to recover, widespread uncertainty and further

job losses will continue to undermine both consumer and business confidence. The overriding priority of the Ontario government is to create a fiscal and legislative environment that supports and encourages businesses to invest, innovate and prosper. That is ultimately the formula for full employment in Ontario.

Creating such an environment would include:

Do not exceed the 1991-92 deficit target of \$9.7 billion.

Be brutal on cost containment and operating costs and be rigorous but balanced in spending reallocations.

Demonstrate commitment to improve productivity and value added of government services by benchmarking against Ontario manufacturers' success.

Harmonize the fiscal policies at all levels of government—stop shifting the burden; resolve the underlying problem.

Hold the line on current corporate taxes—increasing the tax load further on an already shrinking tax base is a formula for disaster;

Provide stimulus to invest.

Specific tax policy initiatives that could be included in the budget would be:

Reintroduce the Ontario current cost adjustment. Currently the equivalent manufacturing investment in, say, the US has a capital cost advantage of 2.5%. Therefore an Ontario manufacturer must find an offsetting advantage in labour, technology, marketing, distribution or anything else to offset that, just to stay even. The OCCA at 30%, which has been sunsetted as of December 31, 1991, for manufacturing and processing equipment turned a disadvantage into an advantage of 1.3%, which leads to attracting mobile investment capital.

Have the existing capital tax creditable against corporate income tax or abolish it altogether like British Columbia has done.

Harmonize the retail sales tax with the GST. Through the harmonization, the business and government resources tied up in the administration, legal and compliance and audit of a standalone provincial system could be reallocated to more productive uses.

No additional corporate minimum taxes are appropriate, considering the existing variety of minimum taxes such as capital taxes, payroll taxes, business and property taxes and provincial sales taxes. Taxes at both the federal and provincial levels are already having an increasingly negative impact on the weakened manufacturing base.

Cease taxing R&D incentives from other jurisdictions and ease the administrative burden on some of them.

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In closing, we believe that our pre-budget proposals are a responsible and fair balance between the realities of both the government's fiscal constraints and the desperate financial condition of Ontario manufacturers.

We are now prepared to answer any questions you might have.

The Chair: We have pretty near 28 minutes. We will start off with Mr Sutherland.

Mr Sutherland: Thank you for your presentation, and we thank you for the detail in terms of what you have outlined, the specific areas.

My problem stems from—I think it was part of the last presentation—the perception about this government not being able to deal with business. Certainly when we are in a negative economic climate or recession, my sense is that the more some of the groups in here, like the one before, talk about that, we keep creating more and more of a level of that. In terms of dealing with the issue or the reality of what the real issues are in terms of some of the initiatives such as Ontario Training and Adjustment Board and those other things, I guess it kind of deals with this whole issue we hear about consumer confidence being low in general. Since consumer confidence is somewhat a perception thing, somewhat a psychological thing, what suggestions do you have as to how we can change that psychology from a negative one to a more positive one?

Dr Myers: The first thing, the most important thing, is to know that your job is going to be there tomorrow or next week. That is really what it comes down to. I know there are a lot of ideas about the psychological influences on consumers. I know there is a lot being said about how we should be putting more money into the hands of consumers so people will go out to buy, but it does not work unless people know they are going to have a job the next day. That is why I think we have to look not at the short-term fix, but at really strengthening the position of both labour and industry in the province. That has to come first.

Mr White: I am very interested in your submission—very articulate and succinct. There were a couple of things I would like to inquire about. In regard to the worker-ownership, the investment program, that has been fairly successful in Quebec. Of course they have also the QSSP in Quebec, which I think has also been quite successful, with very limited room to manoeuvre in terms of moneys. What are your comments on those schemes as incentives to investment?

Mr E. Owen: That is a question we have not addressed in the pre-budget submission.

Mr White: I appreciate that.

Mr E. Owen: That is why you asked the question, I know. We did have an opportunity to study the worker-ownership draft that came out. Our immediate reaction to it was not very positive, although it was not totally negative. This is one of the things CMA really believes in, shall we say, share the profit, share the wealth. We looked at it, however, and one of our major problems was that it seemed to be, at least to us, only directed to those corporations that had a union affiliation because it was, as we understand it, only going to be handled by the union people.

We also felt that if we were into a profit-sharing mechanism indeed, where workers can participate as owners—incidentally, as well as having a job with the Canadian Manufacturers' Association, I own retail outlets, and each and every one of my workers participates as an owner. They may be minority owners, but I do honestly believe in that.

However, how do you choose winners and losers? This is one of the problems. If indeed the money that is going to be generated through this type of scheme is only going to be put in the hands of losers—and I look at that from the point of view of people who are on the threshold of going bankrupt—that may well be an idea for keeping the job, but it is not improving competitiveness. If the money is going out and is being directed into areas where enhanced competitiveness comes from it, I do not see that we can be opposed to that. However, from the point of view of it being restricted to the small segment that we see, I do not believe in that.

As a matter of interest, we have gone to the Minister of Finance with a scheme. It is something that we have dusted off. First of all we went way back to John Crosbie, looking at this as a regional application. Right now, with the enhancement of the RRSPs, it makes a great deal more sense. We believe that if people wanted to invest in their own community they could use some of their RRSPs, which would be generated and retained in the community where they live; it would be handled and actually distributed by people who would be selected in the community. We think that may be a better way than saying only union organizers or union shops can participate in this.

The Chair: Okay, Mr Sutherland, three minutes left.

Mr Sutherland: Just one quick question. You talked in your presentation about the Canadian dollar falling to a more realistic level. In past presentations before this committee, you have given us a kind of range as to where you think the dollar should be. Could you give us some sense where you think it should be right now?

Dr Myers: I think about 78 cents.

Mr Sutherland: Okay, thank you.

Mr E. Owen: If you look at it from the point of view of 78 cents, our configuration indicates that for every drop in the Canadian dollar, it helps our exports by the amount of \$2 billion.

Mr White: I have a further question from your earlier response. I am interested in the RRSP. The fact is that more and more moneys are going to be drained from investment by RRSPs, which I am not sure are the most economically vital instruments. Now you are suggesting a community-based RRSP. Could you expand on that?

Mr E. Owen: Community-based from the point of view that we even had an acronym for them: registered investment security certificates, which were a risk, if you look at it that way. I think that is very appropriate from the point of view that if indeed we now have a threshold of \$11,500 for RRSPs, at the time we made the recommendation to the federal government it could be as low as \$3,500. We are suggesting that, within the framework of the RRSPs, people could choose either to go into general registered retirement savings plans or to put certain of their moneys into the RISC program, and it would still fall within the framework of the \$11,500.

I hear right now that people are advising or asking for the federal government to let people use RRSP funds to purchase houses. I personally—and this is my own personal feeling; this does not come from the Canadian

Manufacturers' Association—have two observations on that. I do not like it, number one; and two, there is already a mechanism in place so that you can do this now. This is being missed by everybody. There is a mechanism in place right now for you to use your current RRSP and go into a mortgage and buy a house, using the house as collateral. That is why I say this has perhaps not been thought through well enough.

1140

Mr Phillips: First off, I want to say that I believe you guys are the engine that drives the economy. I have no doubt about that. I worry a lot about investment decisions that are being made right now to invest not here but somewhere else; it is going to have a profound impact on our economy. The most frightening number in your proposal was the manufacturing investment going down another 6.5%. That worries me a lot because that is the third consecutive year of decline. So you do not have to sell us on its importance to the economy and the jobs.

My question is around this economic recovery plan. The speech from the throne I suspect will have an economic recovery plan in it. The three major components will be this worker ownership stuff—people are missing this. RRSPs under that proposal will be used through the union-run venture capital funds to purchase companies. That is the proposal: Use RRSP funds run by the union venture capital to purchase it. You probably saw this; this thing is already out there. If you put \$3,500 in, it costs you \$350. The rest is all tax credits and it goes into the venture capital fund.

Have you looked at three of those economic recovery components: the union-run venture capital funds, the use of public sector pension funds as a source of capital, and the establishment of the arm's-length, independent OTAB with a \$2-billion budget for training? Do you people have any comment on those three elements of the economic recovery plan?

Dr Myers: We have looked at it. The general point to be made is that in principle there is a real problem in capitalizing business in Ontario, especially small and medium-sized firms, in allowing those companies to secure credit or capital. That is a real problem. Some of our research has shown that 91% of Ontario companies, small and large alike, have counted on bank financing. It also shows that the banks are not willing to lend in many cases to small and medium-sized firms right now.

There are no two doubts about it. This is a major problem. Where the worry comes is with the mechanisms that are being set up in order to do that. First, I do not think venture capital is the main problem. There is lots of money that seems to me to be out there. One of the problems is securing money for capital investments: incremental capital, continuous improvements in technology. That is the type of financing that is not available. It is not the ability to get capital for ownership purposes of companies and it is not the ability to provide seed capital for startups of good ideas.

Second, I think there is a problem as well from the company's point of view of how the financing is going to

be working in with what they want to do themselves in the way of technological improvements or training and education. It is very important, of course, to find a well-skilled workforce, to provide the training for that well-skilled workforce, but if the training does not take part in industry itself and follow industrial priorities, you can have as well-trained a workforce as you possibly could imagine, but if it is trained in the wrong types of technologies and technologies that industry is not using, what is the purpose?

The overall conclusion is that these are real problems we are addressing, but surely there are mechanisms that could be found to provide pools of capital or to provide training so that companies themselves would have a much greater say in taking part in that sort of thing.

Mr E. Owen: What Jay has said leads me to make a couple of comments here. If there are no jobs out there, if there are no places to work out there, we may have the most highly trained workers in the world, but if there is nowhere for them to work, why do we train them in the first place? If you look at this, where we have come from is to generate the facilities for the future. One of the big arguments we have had within the framework of the CMA is that we recognize that a great deal is being done out there right now for job training, so we have stepped back from that and we have offered a scenario which will put in place an environment so that these people can, maybe two, three or four years down the road, step into and have meaningful jobs.

I think Jay is quite right when he talks about venture capital. There is a lot of venture capital out there. He made the comment about technology. There is absolutely no one, and I mean no one, who will fund you, either a venture capitalist or more particularly a banker, if you are looking at creation of high-tech. It is not only high-tech, it is very high-risk; as such, I think people will say time and time again that the banks will loan you money providing you have three times their multiplier in your own bank.

One of the things Jay did not mention—he did mention it in a way, to the extent that we do have certain mechanisms which are not creative in terms of making Ontario more competitive. This is the important thing we have to look at. It is no use saying that government can create jobs. Government cannot create jobs. Jobs happen when the environment out there is conducive to jobs being created. This is where we come from.

The other thing is that in terms of the mechanisms right now, we have too many mechanisms in Canada which are directed towards real estate. I can honestly say we have more real estate millionaires than we need in Canada. It is absolutely fallow money being put into buildings and this type of thing; it should be directed towards the wealth-producing that the Ontario people can generate.

Mrs Y. O'Neill: May I ask a question of you gentlemen, please?

The Chair: Two minutes left.

Mrs Y. O'Neill: Capital cost allowance: I was very distressed when I read the 1991 budget and saw about a quarter of a paragraph on this, what I consider a very important incentive in business. You have brought it for-

ward and given it almost a page in your brief, and I am very happy you have. When I questioned this, and it was my area of responsibility to do that, I was basically told that the reason was that there were very few takeups on this incentive. Your brief does not seem to indicate that. I felt there were a lot of spinoffs with the investments in equipment that would be purchased as a result of the incentive, which would also create small businesses which you seem to indicate in the business equipment area. I wonder if you can say a bit more to us about how important this incentive is. I feel very strongly that it is something we should be pushing rather forcefully at this moment.

Mr E. Owen: I will just make a couple of comments and then I would like John to give you an indication of how important to the manufacturer it is. Number one, the multiplier of such an incentive is, as you say, great.

We recognize the heavy burden that parliamentarians carry in putting bills through the House. However, the actual Ontario current cost adjustment which was originally introduced at 15% was never put into law; the actual increase to 30% was never put into law until February 1991. A number of corporations will not go ahead if they are not certain that is going to be put into law. When we heard it had been put into law, we then found there was a sunset placed on it of December 31, 1991, and to expect manufacturers to go into huge, literally huge outlays of capital within a time frame of 10 months—it is not possible.

1150

Mr Carlos: About a year ago, when we sat before you, the point with respect to the impact of the OCCA and the impact of the ability to compete in other jurisdictions, wherever they are around the world, in capital investment, was very important. If I remember correctly, one of the members of this committee at the time observed: "Gentlemen, your manufacturing message is not coming through very loud and clear. A lot of other groups that are also vying for the attention of the government are making a lot stronger representations. Therefore, you have to do something dramatic." We said, "What can we do, other than what we have already done?" We have come back here a year later and we find that we have about 110,000 fewer jobs and a significant reduction in capital investment in manufacturing this last year. We say to ourselves, "What can we do this time to create a stronger"—to use a colloquial term—"passion in our groin so that we will not have to come back here and do the same thing again?" We have lost another several hundred thousand jobs and unfortunately Jay's economic forecast becomes a reality and there is a reduction again in the amount of capital investment in new machinery equipment in Ontario.

So what we said was, the best thing to do is to become a broken record on something that is very important to us, which is the cost of capital in Ontario versus our competing neighbours. As I walked up from the parking lot today, freezing, I said to myself, "I now know why it costs 20% more to build a polyethylene plant in Kingston, Ontario, than it does in Louisiana, because I have to insulate the darned thing because it freezes in Ontario at this time of year."

I use Louisiana not loosely, because as we sit here today there are decisions being made in corporate investments where the mobile capital is trying to determine where the best place to invest is, where it is going to get the highest return at the lowest risk. My people are competing with the people in Louisiana, or they could be in Singapore, or they could be in Marseilles, all around the world.

Something like the OCCA was a little thing that allowed a competitive disadvantage to change into an advantage and, as we indicated in our brief, right now we can be very proud of the productivity gains that have been achieved in manufacturing. I think we have the best-skilled labour force in North America. We have some of the best technology. We have very effective distribution systems, and our salesmen can match themselves head-to-head with any salesmen around the world. But when it comes to the cost of capital, that is where we have to find ways to offset the advantage our friends to the south have.

Our salesmen have to be better, our engineers have to be better, quicker on their feet to transform the technology into effective processes and our scientists have to be better in coming up with new products in order just to stay equal, let alone do better than the competition.

I remember the words of the Treasurer at a pre-budget meeting last year where he felt that the OCCA was not a well-focused initiative. Yet I think within two weeks after it was announced that it was going to be pulled back, a lot of long-term investment decisions and many corporations all of a sudden became not as assured as we had hoped. My company was among those.

The concern we have is that when you are building large, capital-intensive, high-tech machinery and equipment in Ontario, you are doing it for a long term. You do not put it in, just take it off the shelf and install it and it is there. It can take one, two, three years to put it in place. Therefore, the decisions we are making today are going to have an impact on the labour force and prosperity two, three and four years in the future.

The Chair: Mr Carlos, I am going to have to cut you short.

Mr Carlos: Am I getting too long-winded?

The Chair: Mr Carr is impatiently waiting for a question; if he wants you to finish your answer, that is his time.

Mr Carr: Actually, I was enjoying it very much and I did not want to interrupt you.

I take it that what you are saying is that in trying to get over one hurdle, the government at a different level puts another one up, you get over that and away you go again. I was interested in something in regard to training. Some of you may have seen Venture last night where it said that, even with the high unemployment rates, we need skilled people in a lot of areas and that we are not doing a very good job. I think everyone recognizes that. The difference is, how do we do it? The way I believe the government is going to do it is to have a pool of capital and say, "Okay, now you come to us." The government will dole out the money, the MPP for that area will go to the manufacturer

and cut the ribbon when the money is given out, to help get re-elected, and it will be a great show.

One of the things I feel would be more productive is if, somehow, instead of the government doing that and picking the winners and losers, if somebody were to say: "I want to invest in people. I'm going to do some training so therefore I'm going to take some type of tax credits." Can that be done more easily in the way I see it working, where the people who lobby the best and know how to work the levers of power are the ones to get the money? How do you see that working?

Mr Carlos: I agree with you in that I would rather there be a broad-based process where all can stand forward and be accountable and can vie for either the capital pool, the technology pool, or the skilled labour force, whatever. I think it is very commendable, for example, that in your riding in Oakville the Premier came forward and provided some funding for both investment and job training for General Electric. But, according to my next door neighbour at GE in Mississauga, the tremendous amount of resources consumed for that particular opportunity was not worth it. At the same time, what about all the others who may not have been so effective in their lobbying efforts? These are not the Du Ponts and GEs. What about the smaller manufacturers, WCI and Canada Metals who just do not have that? If there were broad-based programs that could be available to all, I think it would be much more effective.

Mr Carr: I know what you are saying. For example, in my riding—and that is a good point—the Premier's office worked one year on that. To me, the Premier should be setting the agenda, not trying to worry about one particular case, as nice as it is. The amount of effort that went into it—although I think it was probably done more for political reasons than anything else, because you get a big show and the big media. It is the same thing in the situation with De Havilland. I know a supplier who says: "We are a major supplier. We don't believe the government should have put money into that. We're successful. We can't come out and say that because we are one of their big suppliers." Again, even in Mr Murdoch's riding, where one of the furniture manufacturers will be getting a government grant to save the company, other furniture manufacturers say, "There we are, we beat them out and could have gained as a result of that and now someone else is going to be able to come in with government money."

From the Canadian Manufacturers' Association standpoint, you are saying the government should not be picking the winners and losers; they should not be giving out these grants that Kimble talked about—which is great, but the only way people are investing now is if the government comes in with any type of grant. You are saying do not do that; level the playing field.

Mr Carlos: Let the customers decide who the winners and losers are, not the government. The government's job is to create the base we can all work from and then we can go forward and see who can deliver the best value to those four constituents: the shareholders, employees, customers and society generally. It is not the government's job.

Dr Myers: I think the evidence, as well, in both the United States and Europe, is that the tax credit along those lines has a far greater effect than actual grants that may distort the priorities of the businesses themselves.

Mr Carr: I had a situation where they changed one of those tax credits, and when I called the Ministry of Industry, Trade and Technology, it called them loopholes. It is funny how the perception of that has now changed.

Along the lines of taxes, as you know, this government in its election campaign went around the province and said, "Don't worry, your taxes are too high, but we're going to hit these corporations because all these big, bad corporations are making a lot of money." When you look at the statistics, only 7% of our revenue comes from corporate tax in this province. The Treasurer has not ruled out a corporate tax increase, but a very left-leaning economist was in, Michael McCracken—I hope he will forgive me for saying that, but I think he is more towards that side—who said what we should do is get rid of the minimum corporate tax, that it would send a great signal to the corporations that Ontario is open for business.

Two questions: What will happen to your membership if they increase any taxes, and do you think getting rid of the corporate tax, that 7%, will help?

Dr Myers: I think one of the misconceptions is that the corporate sector pays a tax and that is it. The cost of taxes is always passed on in some form to the consumer or to the workforce, either in the form of higher prices or what we are seeing right now in the form of higher unemployment.

Looking at the possibility of a corporate tax and looking at the cost of an incremental increase in either, say, income taxes or in non-discretionary taxes, I think there is a tremendous cost there. We were calculating that a one percentage point increase in the corporate income tax rate in this province would cost businesses something like \$160 million. Well, that is \$160 million that might have otherwise been invested in capital equipment and created a future stream of income, or certainly would have created jobs in the future.

When we look at the idea of tax increases at all and the desperate financial condition of manufacturers today in Ontario, all we can see is further cost, further unemployment, further investment that either does not take place in this province or cutbacks in investment. We are already seeing, I think, some of the effects not only of the recession but of fiscal policies on the corporate sector.

It is a very serious problem when you look at capital investment in this province, and I see no prospect of machinery and equipment investment in manufacturing picking up until late 1993. There is always about a one-and-a-half-year lag between the cash flow of manufacturers and investment. Yet we hear from everyone that we must become more competitive and productive. Where is the connection?

The Chair: Gentlemen, I would like to thank you for coming before this committee with your presentation.

The subcommittee is going to meet directly now for about five minutes. We are adjourned until 2 o'clock.

The committee recessed at 1203.

AFTERNOON SITTING

The committee resumed at 1411.

ONTARIO PREVENTION CLEARINGHOUSE

The Chair: I would like to welcome Bryan Hayday, executive director of the Ontario Prevention Clearinghouse. Go ahead, Bryan.

Mr Hayday: I would like to thank the committee members for the opportunity to present a number of financial priorities emerging from my organization's work with the private, public and non-profit sectors in this province.

Please allow me a few moments to place the work of the clearinghouse in context. The Ontario Prevention Clearinghouse is a terrific organization with a terrible name. We are a provincial, non-profit organization providing consultation, training and information services in health promotion, preventive programs, community development and social assistance reform.

The clearinghouse is an active partner and organizer in the national and provincial healthy communities movement. The goal of the healthy communities movement is to establish healthy public policy and programs in municipalities and other jurisdictions across Ontario. Its efforts complement the formative work with programs such as Better Beginnings, Better Futures, a long-term project to demonstrate the effectiveness of integrated preventive programs which is now operating in 11 Ontario communities.

The clearinghouse is also the lead non-profit organization in Transitions: Corporate Strategies. Transitions: Corporate Strategies is the project name for a joint private, non-profit venture to help welfare recipients find jobs. The goal of this major project is to demonstrate a working model in Metropolitan Toronto which can be adapted in other parts of the province. It is in this context of healthy public policy and community economic development that I make my remarks this afternoon.

The clearinghouse recommendations are organized by expenditure area. The first area I wish to address is in the area of healthy public policy. The first recommendation is that the province reallocate additional resources for health promotion, preventive services and community development activity, equivalent to 10% of the dollar value of all transfer payments, purchase-of-service arrangements and block funding through Ministry of Health and Ministry of Community and Social Services agencies and institutions. Let me speak to this recommendation briefly.

Budgets for health promotion, preventive programs and community development activities do not generally fare very well during periods of recession. Government tolerates cutbacks to these programs to protect the much larger budgets of institutional and tertiary care programs. Virtually every major health and social service report in the past decade has called for a reallocation of resources to address a broader agenda of health which strengthens health promotion. When is this going to start? We cannot call for more investment in the determinants of health at the same time that we are busy squeezing it out of existence.

The members of this committee will no doubt know that we have reached a crossroads. We have to decide how much and what kind of community services we can afford and which ones make a substantial difference to our life in Ontario. We are now at one of these turning points where we must ask our public stewards to make sure that we stay the course and reallocate sufficient resources for health promotion, preventive programs and community development. The province's decision on whether to support the Ontario healthy communities movement will be an example of whether it has the will to make these choices.

We have far too many examples from our history, recent history included, where we have said one thing and done another. We embarked on a process of deinstitutionalization, notably in the fields of developmental disabilities and psychiatric institutions, only to find years later that those institutional dollars were not sufficiently reallocated into a full network of community support. The public needs some new examples now where we follow through on important recommendations for healthy public policy.

Our second recommendation is that the province invest the equivalent of 2% of its 1991-92 social assistance payments in opportunity planning, retraining and community economic development projects, in partnership with the private and non-profit sectors.

Ten per cent of the population of Ontario depends upon some form of welfare as the source of household income now. While there are some in this province who think the solution to this problem is to bash away at those living in poverty and blame them for our current economic situation, saner voices must be heard.

Our many contacts in the private sector are concerned with this problem. They have convinced us that this fundamental economic restructuring in the province requires some new approaches. We must replace jobs which have disappeared with new forms of livelihood, along with a combination of both new skills and a consolidation of foundation skills.

The province can stimulate support and enable this transition. I would therefore like to propose a further set of recommendations which pertain to the economic wellbeing of the citizens of this province. These recommendations also have a corollary impact on people's health, since we know that health status is influenced by employment, income, housing and the ability to make a meaningful contribution.

These recommendations include the following: that the province reduce the effective tax rate for wage earners in the lowest income quintile, thereby increasing real income among those who are least well off economically as well as facilitating the transition for those trying to move from welfare to employment and that the province immediately launch a series of opportunity planning projects for welfare recipients that are market driven, regionally sensitive and that develop partnerships across sectors in communities.

In September of 1988, George Thomson, the then chair of the Social Assistance Review Committee, recommended a series of sweeping changes for welfare in this

province. One of the key recommendations called for the inclusion of opportunity planners to facilitate this move to increased independence for those who were then dependent upon the welfare system. This was intended to be a voluntary process and could in many cases lead to some form of employment.

Two and a half years later, in the spring of 1991, a subsequent provincial commission under the chair of Alan Moscovitch again called on the province to launch a range of pilot projects in the area of opportunity planning. Almost a year after that, three and a half years after Thomson's report, we are still waiting for the start of opportunity planning in the province. The pressures on the welfare system and the dissident voices of those who are blaming the victims of the economic recession compel us to find fast-track ways to launch innovative ideas. This means that new ideas should be launched as they are ready. This approach is entirely consistent with solid management strategies such as continuous quality improvement, which would enable the province to evaluate innovative activities for continuous progress and innovation as they operate. Good ideas would not be delayed for the sake of managing this process in lockstep. Market and regional pressures require flexible processes.

The fifth recommendation is that the province establish a public community economic development fund in partnership with the private and non-profit sectors. There have been numerous stories in the press over the past months, including today, where the private, public and non-profit sectors have collaborated to address the refinancing or restructuring of specific industries, companies and communities. These solutions have been developed, for the most part, in response to specific economic crises.

A more proactive approach is called for. The economic restructuring in this province is not just about bailing out specific industries but rather about starting new ones, supporting micro-enterprises, encouraging innovation and self-employment and facilitating the development of new partnerships in communities from which new economic ventures can spring up.

Again, there are too many examples of saying one thing and doing another which undermine our efforts. As an example, at the same time that the province is looking to stimulate the housing industry through a series of amendments to RRSPs and adjustments to down payment requirements, the Ontario Access to Permanent Housing Association is struggling for its survival. Since this association concerns itself with non-profit and affordable housing in 37 areas of this province, there must be room for a fit between attempts to stimulate housing starts and the existence of an association concerned with housing accessibility. Public policy leadership requires that we integrate the best of what we are currently doing with our best sense of what we might try to do. The province has a clear role in setting out this kind of optimistic, balanced agenda. On behalf of the Ontario Prevention Clearinghouse I urge you to consider these recommendations as a part of this agenda.

Mrs Y. O'Neill: Thank you very much for your presentation. I agree with you. Your name is somewhat of a

hurdle for us to get over when we try to discover what you are after.

Mr Hayday: The name "Hayday."

1420

Mrs Y. O'Neill: I am really pleased that you brought forward in such detail the opportunity planning concept. I am going to ask you to say a little more about that. I happened to be around here in 1988 and I know how important it is and I know how important it was to the people who were helping us pull together the transition program.

I guess you did not have time to develop everything, but this community economic development is so important and not expensive. You may or may not be aware of the program we began—I guess it was around that same time—the eastern Ontario economic development grant. It was only \$5 million, which is not a heavy price tag, and there were over 25 eastern Ontario communities that had never had an economic development plan that got one. It put people in touch with each other who had never spoken to each other. I think that is where the basis of renewal is, in the communities themselves.

If you would, please say a little bit more about how the opportunity planning program you are talking about works with an individual. I think your phrase—I just hope this new budget is full of it—fast-tracking innovative ideas is what we have to do and opportunity planning is one of those. Could you just say a little bit more for the record about what that means to an individual?

Mr Hayday: Fair enough. An opportunity plan is a voluntary contract between an individual who is on welfare or social assistance as it is provincially funded who wishes to become more independent of that system, which is not to be bogged in some sort of permanent arrangement where they become increasingly dependent and lose an attachment to the labour force.

The barriers facing an individual can run the gamut from child care to retraining to the need for specific life skills which would enable them to qualify for a career-track position or for a self-employment venture. The notion Thomson first recommended was that we not assume that the people who currently administer welfare are those in the best position to help people make that transition. Administering a benefit structure is a very different set of skills from helping somebody develop a set of presentation and market-ready skills which would enable them to be more independent, enable them to secure a job or to launch a micro-enterprise. They are just completely different sets of skills, and the Thomson committee recognized this back in 1988. We have been waiting subsequently for us to deal with the second major strand of welfare reform. One strand has always been adequacy: that people should have adequate supports. But those adequate supports were not intended to be permanent supports, and unless you actually put something into the system where you allocate resources to help people move off welfare, how is that an enabling system?

Mrs Y. O'Neill: The Thomson report, as you know, was developed after over a year's hearings with over 2,000 individuals who would need this kind of assistance. I am

really pleased you have brought that forward to this committee. I have no further questions. I think your report is going to be very helpful to the government.

Mr Hayday: Could I just add a supplemental, Ms O'Neill? I believe the current estimates for welfare expenditure in Ontario are somewhere in the order of \$7 billion this year. I may be out, but I am not out that much. The current call for opportunity planning projects would only spend \$5 million. My math is not that great, but \$5 million against \$7 billion does not feel like a very reasonable investment when you are talking about economic restructuring.

Mrs Y. O'Neill: And we are talking about people's self-worth.

Mr Hayday: For a tenth of the population.

Mr Carr: Along those same lines, as you know, all parties agreed with most of the SARC report. It is kind of ironic, because you cannot get all three parties to agree on anything, including what day it is. Yet it seems to be stalled. I was wondering if from your perspective you could maybe give us an insight on why we seem to have stopped dead after all that tremendous amount of work—we heard some of it today—that has been done. Why has it not proceeded, in your estimation?

Mr Hayday: My explanation is speculative, Mr Carr, but I have never been known to shy away from speculation. This province is not made up of a homogeneous set of communities, and the reasons the people are on welfare are not homogeneous, yet the rules for welfare administration have tended to try to be homogeneous, meaning we try and set out a set of regulations that will work equally in Nipigon as well as in Cabbagetown, and life is not like that. So we have a system trying to manage a multifaceted community problem and it is not set up to adopt, sponsor and fast-track multifaceted community solutions.

It is easy to do a rate change and say, "Okay, 2% across the board." It is easy to do that because it is an administrative, accounting adjustment. Launching a different way of doing business is tougher, and I do not know that the public sector has a lot of experience in launching new market-sensitive systems on its own. It seems to me that some partnerships are called for there.

Mr Carr: I think you are right, and sometimes it is driven by crisis. I know in my region, Halton, the regional chairman is now talking about not implementing a lot of what the province tells them to do and that may sort of drive it, because before a lot of the municipalities went along with a lot of things. He said the other day, "We're not going to do what the province wants because they don't give us any support." Sometimes out of these crises maybe come some solutions, because now it gets pushed to the front of the list of the priorities.

I was also interested in point 3, where you talked about reducing the effect of taxes for wage earners. I wondered if you could be a little more specific, because, as you know, one of the big concerns is that, taking some of the jobs now, it is difficult to get back into the job, particularly if you do not have any of the skills, because it is at a low end of the wage scale that you jump in. I was wondering if you had some idea of what it would look like and maybe

also—and it may be difficult to do—just some idea of what the cost would be and how you see that spinning back in. Would we regain that back now the way the economics work? Maybe you could just expand a little bit on that.

Mr Hayday: For people in the lowest economic quintile, or those making the bottom 20% of an income hierarchy, any income they have is for the most part not discretionary. It goes into the purchase of essential goods and services, most of which are consumed or sold directly within the control of vendors and producers within this province. So any increase in real spending by those in the lowest 20%, according to some economists I am familiar with from the University of Manitoba and the University of Toronto, has translated into direct local economic activity. There is an immediate recovery in that sense, minus the middleman of the government tax collector.

1430

The second point I would make in response to your question is that the effective tax-back rate for people moving off welfare into employment still hovers around the 60% range, which is still as high as or higher than people in the top income quintile in the province. So it becomes an unnecessary tax barrier to moving people off a situation where they might be drawing as much as \$20,000 to \$22,000 a year in provincial support payments through the family benefits program, for the benefit of collecting 60 cents of every earned dollar they have. It feels like a kind of bizarre logic that we would tax back at such a high rate as to maintain somebody in a higher state of dependence upon the welfare system.

Mr Carr: You are right, because, as you know, those people at the lower end of the scale do put the money back in the province. They do not, like some of the higher-end scales, get condominiums in Florida or put it away and sock it away in RRSPs or whatever; they do mostly spend it.

Just on the other point, a little bit about the redirection in terms of health care in this province. Again, we are talking about the same type of process of jumping into a new system. The transition seems to be the difficult point, the same with the SARC situation. It is upfront money to long-term gain, as it were. The process now has not been too specific, but do you like the idea; do you like the consultation process; what are your thoughts in that area?

Mr Hayday: There are two parts to your question, if I heard them. One is the general set of new directions for health and the second one has to do with long-term care reform.

Mr Carr: Yes.

Mr Hayday: Let me speak to the first one first. Based on the last figures I looked at, I think we are spending about \$17 billion a year on health and health care in Ontario, which the last time I played with a calculator translated to about \$2 million an hour. So since I started talking to you, we have spent \$1 million on health in this province. Part of the fallacious assumption is that we have spent \$1 million on health. Really we have spent \$1 million on health care.

The best research we have tells us that unless we begin to redirect resources to look at the determinants of health, unless we recognize the significance of research that says that if you are in that lowest income quintile and you are living in a city in Ontario or in Canada, you are going to die anywhere up to five years sooner than somebody who has a higher income, until we start to recognize that those markers are significant benchmarks about health and treat them with the same kind of fiscal importance as we treat health care, then we have a problem. We are going to continue to accelerate and have pressures to accelerate in double-digit terms institutional care rather than looking at programs which address determinants of health.

I am not telling you what you do not know. I think what you need to know is that there will be too many pressures to maintain bricks and mortar and not enough pressure to reallocate to community-based programs.

Mr White: Thank you, Mr Hayday, for your excellent presentation. I may be drawing some conclusions from your report, but certainly you seem to combine the economic and the social and health issues together very significantly. I am certainly reminded, from my own years working with the children's aid and in social service settings in the past, of how profoundly child welfare is almost directly equivalent to child poverty and, as you were suggesting a few moments ago, ill health is directly related fairly strongly to economic health.

What I am concerned about a little bit in terms of your recommendations is that while I think they are excellent and laudatory, they speak really to a specific ministerial portfolio as opposed to the holistic issue of: Where is the government spending its money? Frankly, I have some concerns about opportunity planning as it was enunciated by the SARC report, because it is one step from opportunity planning to workfare. It is a little too close. That is a major issue and I do not want to enter into that. If you are looking at the budgetary percentage in Comsoc or Health, in terms of prevention, in terms of opportunity planning, could you give some attention instead to the overall spending? For example, the Ontario Training and Adjustment Board, which is going to be a big budget item, as you are aware, what kind of percentage should be spent in those kinds of areas, and of course with health promotion, which can range into areas of Tourism and Recreation, areas of Health and Comsoc etc, across ministerial boundaries? I am wondering if you could spend a little bit of time addressing that on a more global basis as opposed to a ministry-specific basis.

Mr Hayday: One of the indicators of healthy public policy is that one sets out some clear benchmarks of what you consider to be values you hold absolutely essential and you look for evidence of those in every form of public spending.

Mr White: Indeed.

Mr Hayday: I am telling you what you know then, Mr White. You have already alluded to the fact that Tourism and Recreation is a ministry that is also concerned with community health, as is Industry, Trade and Technology, as is Labour, as is Education, as are the other portfolios.

My recommendations are addressed in the context of specific ministries, based on my previous experience that the more general comments do not generate sufficient activity because they are not close enough to what is. So I am starting from what is, but I would prefer to move to the more integrated approach you are recommending. We have created funding towers which are relatively artificial and do not make sense to most folks in the community and require people with my experience to translate into some kind of coherent public program or spending. While I am flattered by your comments, it should not be so. It should not have to be so difficult to translate it into an integrated approach. It is. I would like it not to be.

One of the ways to begin would be to begin with healthy public policy requirements such that Environment, Education—and just keep going through the rest of the ministries—are required to commit to some fundamental targets. You asked me to put a number on that. I picked a specific number of 10% in two areas of spending, which together represent upwards of 40% to 50% of provincial spending overall, I believe, in the current year, because that would represent an effective doubling of our best estimates of what is currently happening.

Mr Sutherland: One quick question and then another. Recommendation 1, the 10%, "equivalent to 10% of the dollar value of" the following—what does that work out to in real dollars?

Mr Hayday: It would be somewhere in the order of \$2 billion.

Mr Sutherland: Okay, and recommendation 3 regarding the lowest income quintile, about reducing the effective tax rate for wage earners: I forget what the exact numbers are, but once you are below a certain income you do not pay tax now. What percentage of those people in that lowest quintile is not paying tax right now?

Mr Hayday: I do not have not a specific number for you on that.

Mr Sutherland: A rough estimate?

Mr Hayday: Probably about half.

The Chair: Mr Johnson, one quick question.

Mr Johnson: It is a quick question; it probably has a long answer. Mr Hayday, with regard to the costs for health services, I was just wondering if you had an opinion on the investment in preventive measures versus care measures. That is the question. It probably has a very long answer, I suspect.

Mr Hayday: I will try and give you a short one, since that would be desired, I think. Most of the major gains we have made in what is called population health, where you look at the overall rate of disease and prevalence of disease and the onset of disease and the age of death—all that gets wrapped together under the category of population health—in the past century have been as a result of public policy, not as a result of any specific curative discovery or intervention. So we are not living longer because we have more hospital beds; we are living longer because our quality of life has improved, because our access to clean drinking water has improved—and I can keep going.

I do not want to give you a long answer on that but I can say that we have talked the good talk on this. We have talked folk wisdom, that an ounce of prevention is worth a pound of cure, but we have seldom been able to actually get the budget for the ounce of prevention. We get the language; we do not get the budget. If we really are going to change the agenda, if we really are going to be serious and work across sectors on this, we have to allocate resources to it and that is reallocate resources. Mr Sutherland's question may have suggested that I was looking for a new \$2 billion in spending. I am not. I am look for a reallocation. We are clear about that.

The Chair: Mr Hayday, thank you for coming before this committee and for your comments. Your brief will be part of our report.

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ONTARIO CHAMBER OF COMMERCE

The Chair: The next group we have to come before the committee is the Ontario Chamber of Commerce. Would you come and take a seat up here, please. I would like to welcome you to the committee, if you would not mind identifying yourself and whom you represent.

Mr Carnegie: My name is Jim Carnegie. I am the executive director of the Ontario Chamber of Commerce. The Ontario chamber is a federation of 170 community organizations comprising some 65,000 business people throughout Ontario, all the way from the small entrepreneur to the multinational.

Accompanying me today is Don Eastman, chairman of our economic affairs committee. My role is to introduce the chamber and Mr Eastman is here to make the presentation on behalf of the organization.

Mr Eastman: Given the circumstances we now find ourselves in, it seems appropriate to begin with a prayer. The one that seems to be most appropriate for what we are facing is the one by Reinhold Niebuhr: "Give us grace to accept with serenity the things that cannot be changed, courage to change the things which should be changed, and the wisdom to distinguish one from the other."

Serenity may be a bit of a challenge today, so let's focus on wisdom and courage.

We are in the midst of a serious economic mess. Because we are in an economic mess, the social systems that are an important part of who we are and what we have accomplished are also at risk. If it was not clear before, it should be now: A healthy economy is a prerequisite for quality in health care, education and our social safety net as well as for our material standards of wellbeing.

Our first message to you is to focus on the things you can do, not on those things you wish somebody else would do.

Our country is in trouble economically and politically. It seems to us that one of the major contributing factors to those problems has been the inability or unwillingness of both the federal and provincial governments to respect each other's mandates and responsibilities. Instead of each level focusing on those things that are within its control,

there is a penchant for playing in each other's sandboxes and throwing dirt at each other. The country deserves better.

There are multiple sources for the economic problems we face. Some of them are due to the federal government's monetary policy, some are due to the cumulative legislative-tax-bureaucratic burden imposed by previous provincial governments and some are due to the actions and threatened actions of the current provincial government.

It is okay to be upset, even angry, at the federal government's conduct of monetary policy and some of its other policies. We may disagree on which those policies are, though. But this government's responsibility is to understand the economic situation we are in and then focus on doing those things that are truly within this government's control. The most recent example of this problem is the Premier's call for Ottawa to permit the use of RRSP funds to help stimulate the economy through house construction.

There are three things wrong with that proposal. First, it is bad economics, based on a misunderstanding of what money is and how it is created. The proposal may move jobs around; it will not create any. Second, it helps to perpetuate a serious, widespread misunderstanding of how the economy works. Third and most important, the Premier should be focusing on what he can and should be doing in this province to help the economic situation, not on providing gratuitous advice to Ottawa.

The problem is not new to this government. This province has a legacy of expressing moral outrage at anything that remotely resembles a restriction on federal transfer payments at the same time that it has been obstructionist on federal tax initiatives.

We have some news for you. It may have escaped the attention of most people here, but the federal government's taxpayers and the provincial government's taxpayers are largely one and the same. Hard as it may be to believe, the federal government is actually in much deeper financial trouble than the provincial government is, so far. Dave Christopherson told a group of us last week that we are all in the same boat together. We could not agree more. This country and its economy cannot afford any more cute games of political one-upmanship at the expense of the economy.

Our second message is that you cannot have more than there is. That is the first and immutable law of economics. You can temporarily live off borrowings, but only for a while and only at a cost.

Our economy is in a depression, not a 1930s, style depression but definitely a depression rather than a recession. A recession is a temporary lull that you expect after a period of heated economic activity that overbuilds capacity. It is a short breathing space to consolidate what has been done and to gather breath to proceed upward and onward. By contrast, a depression is marked by systemic problems that are not self-correcting, that will not go away until we do something to make them go away.

Turn to the first graph, the one showing Canadian unemployment, at the back of the handout. The Canadian economy never did recover properly from the 1982 recession. By 1988, Ontario alone had returned to pre-1982 unemployment levels—six years of serious economic

underperformance. A year and a half later, in the middle of 1989, we were headed back into recession. We have been in that recession for two and a half years now. Recovery is still elusive and the consensus outlook is to forecast hope for a painfully slow, fragile recovery some time later this year, a recovery too slow to make any meaningful impact on unemployment rates.

We have good news and we have bad news. We believe that the economy could turn in a much stronger performance than those numbers, but it is also disturbingly possible that the consensus will turn out to have been optimistic. To a greater extent than we think most of you realize, that future is in your hands and will be determined by what you do over the next couple of months.

Turn to the second graph, the one showing industrial production indices for the US and Canada. Look at the Canadian line. That line represents what has happened to this country's economic foundation, the part of the economy that helps to support everything else. It is not specific to Ontario and it does not include all our tradable services, but it is representative of the base market economy that provides the driving force for the rest of the economy and the taxes for our social programs.

Thanks to the recession/depression, the provincial economy is actually smaller this year than it was last year. That means the average person in this province has less this year than a year ago; some, those who have gone bankrupt, those who are unemployed, have a lot less.

In the face of this economic reality, the best that the province could do in its own labour negotiations was to slow down the rate of wage increases for public sector employees. As a result there will be fewer funds available to maintain social programs under stress and there will be higher taxes, either now or in the future, for the average provincial taxpayer. That is not just unfair; it is economically damaging.

If you think you have a revenue problem, have a close look at what this recession has done to the business base that drives your tax revenue. Think how higher taxes would affect what the business community has to do.

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We do understand how difficult the civil service negotiations were, and in one context the settlement should be seen as a major accomplishment. Even in the market economy in the midst of this severe recession, cuts in wage rates have been few and far between. All employers seem to be caught in a trap. It is hard, if not impossible, to get even temporary wage reductions that will permit continued employment and a return to a productive, dynamic and growing economy. It is relatively easier to grant small increases and then conserve cash by laying off people or suspending hiring.

At both the government and business levels, declining revenue and steady-to-higher wage rates mean laying off otherwise productive people. As the economy produces less, it puts even more pressure on both business and government revenue streams and then further needs for layoffs. As a result, our economy has been falling in on itself.

When we look at Canada's international borrowings, our current account deficit and the combined federal and

provincial deficits, we see a country and a province that are consuming far more than they are producing.

As a province we need to achieve a dramatic increase in employment, productivity and output or be prepared for a vicious decline in our living standards. Right now wage levels and economic expectations in this province are disturbingly out of touch with our current economic reality.

We do not want Ontario to become a low-wage area. We want to stop a process that threatens to turn it into one. You cannot have more than there is. Neither you nor we have translated that reality into the wage settlement process. As a result, we are making our economic problems much worse.

Our third message is that it is a lot easier to spend your way into trouble than out of it. Increasingly, legitimately frustrated people are calling on the use of fiscal stimulus to jump-start the economy. There is only one problem with that: It will not work. It will make our problems worse.

We have a federal budget deficit of over \$30 billion and a provincial deficit of \$10 billion and rising. If government spending really did stimulate the economy, we would not be in this mess.

Let's turn to the comments we made to this committee last year: that this recession was created by the Bank of Canada in response to its legitimate concern about inflation. That does not mean we agree with what the Bank of Canada has done; just that we understand it. As long as the bank is maintaining strict limits on the amount of money available to the economy, government spending does not stimulate anything other than perhaps our blood pressure. All this policy does is to destroy more businesses, the jobs they provide, the goods they produce and the tax revenue that comes from this activity.

As we suggested a year ago, provincial spending initiatives in this environment are like trying to fill a bathtub with a teaspoon while the Bank of Canada has the plug out.

Has the Bank of Canada put the plug back in yet? Certainly interest rates are a lot lower today than they were a year ago, but the bank maintains a substantial spread between Canadian and US interest rates. The differential on 90-day T-bills is still over three full percentage points, and it has been rising recently as the bank has been fighting the decline in the Canadian dollar.

The Canadian dollar has settled back to 85 cents from earlier higher levels, but purchasing power parity is something less than 80 cents and declining as more of our industrial base and tradable services are driven out of business. At 85 cents, our goods and tradable services are arbitrarily being made uncompetitive on world markets.

It looks to us like the plug is still out. Any attempt to stimulate the economy with government spending will not just be wasted money; it will be counterproductive. To use another analogy, it is like kicking a horse while still pulling tightly on the reins. The horse may get upset and jumpy, but it is not going to go anywhere, or at least not where you want it to.

The recession did not just happen and it was not caused by the free trade agreement any more than the 1982 recession was caused by the free trade agreement. It was created

by the Bank of Canada to try to control rising inflationary problems centred primarily in Ontario.

A lot of that inflation problem has arisen from the provincial government through higher taxes, legislated cost increases, a costly and rising bureaucratic burden, expensive high-profile public sector wage settlements—up until the current one—and increased provincial competition for the scarce funds that are available.

We have raised our concern about provincial government-driven inflation not just with this government but with the previous one as well. The standard response has been, "It ain't us." Until the government of this province starts facing up to its responsibility on the inflation front, we will continue to have a lot of unnecessary economic grief.

The Bank of Canada may not be right, but it is the Bank of Canada. Help it find the comfort level it needs to put the plug back in the bathtub.

What can we do here? First of all, given the revenue situation, this province has to take a much harder look at its spending. We previously offered our services to help the province take a fresh perspective in looking at its program efficiency and spending commitments. We think this government could make use of some fresh insights and the experience of the business community.

On the revenue side, in the current environment it is hard to identify any areas where taxes can be raised without having a counterproductive, negative impact on the economy. The province needs more taxes, not higher taxes.

There are two areas we would like to draw your attention to—areas where you can improve both provincial tax revenues and the economy.

First, Sunday shopping. For many people in this province shopping is a recreational activity, one that they want to pursue on Sundays. If we will not permit them to pursue it in this province, they will pursue it south of the border. That means lost revenue for Ontario businesses. It means lost tax revenue for the province. It is time to let legislation reflect today's realities.

Second, consolidate the provincial sales tax and the GST. Having two separate taxes has imposed a substantial and quite unnecessary burden on the business community. Paperwork costs money and wastes resources. In addition to the administrative burden of two separate taxes, the separate provincial sales tax has contributed to the cross-border shopping problem. The province is losing a substantial amount of revenue because the provincial sales tax is not collected at the border, and we lose business because it helps make US prices more attractive. Put the taxes together, simplify the paperwork, collect more taxes and get more business.

On the deficit: The deficit is going to be large, but at least let's not kid each other on how large it really is. Separating out capital spending without making any realistic allowance for deterioration and obsolescence—for depreciation—is fundamentally misleading. Please do it right or do not do it.

As for the deficit itself, we agree with the Treasurer that the current projections are unacceptable and that a significant reduction is required. We do not have a target

number for 1992-93. What is critically important is whether this government does lay the foundation for a fundamental improvement in the provincial economy or whether we continue to have initiatives that worsen our economic prospects.

I would like you to turn to the table showing unemployment rates by region, and the end of the graph showing changes in unemployment. In July 1989, Ontario's unemployment rate was 5%. By September 1990 it had risen 1.5 percentage points to 6.5%. From then until December 1991 it rose a further 3.2% to 9.7%. Most of the deterioration in Ontario's economy took place after this government took office. Ontario's experience has been much worse than that of the rest of the country.

Not all of that increase in unemployment is due to the actions of this government. We would not even attribute all of the difference in Ontario's performance and that of the rest of the country to this government. Some of the difference is due to the legacy of the previous government, and some of it is due to high exchange rate monetary policy that has been particularly harmful to Ontario's manufacturing base. But a growing portion of that difference is due to what this government is doing.

In addition to a disturbing level of losses of businesses to bankruptcy, we are seeing a number of companies moving their operations out of this province, some to relocate in other provinces, more to relocate in the United States. At the same time there have not been a lot of people anxious to move to Ontario or to invest money here.

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Ontario has become a high-risk, hostile environment for business. There is no comfort that business will receive fair treatment in this province. Unless that perception changes and changes quickly, our economic prospects are dim.

We have already provided a number of messages today. All of them are important, and if we have helped your understanding on any of them, the province will be well served by what we have done. However, as substantive as they are, they are dwarfed by the urgency and importance of the message we want to give you now.

We are not asking this government to set aside its principles of social justice and commitments for a better world, but to ensure that those principles are not compromised by preconceived, insufficiently researched solutions.

We want this government, and every government, to take the time to honestly and sincerely put itself in the shoes of all of those who are potentially affected by proposed legislation and administrative changes, to think through how those changes will affect our decisions and, subsequently, how the economy, our social systems and people will be affected.

Consultation is not a negotiation, a debate or some contrived set of hearings but an open communication process for helping you to truly understand our thought processes and the likely outcomes and to help ensure that you have not overlooked important aspects of the problem you are trying to solve.

Our responsibility as the Ontario Chamber of Commerce is to help keep our business members informed on

upcoming legislative initiatives and how they may affect their businesses, and then to try to ensure that the government understands the full economic implications of those proposals and our members' concerns about them.

At the end of the day we expect the government to act in the best interests of the province, to honour its social commitment in the broad provincial context. Once those decisions have been made, it is up to each business to make its own decisions on how, or whether, it wants to be in business in this province.

The largest, most pressing problem we have right now is the proposed changes to the Ontario Labour Relations Act. The OLRA conflagration is a symptom of a fundamental problem with the consultation process. The proposed changes threaten to dramatically alter the business environment in Ontario in ways that will make it much more hazardous to be in business. Our attempts to communicate that concern quietly have been ignored, and when we have elevated those concerns to try to be heard, we have been accused of using scare tactics.

All we are asking is that you honestly and sincerely put yourselves in our shoes and in the shoes of all of the other players before making your decisions. If that had happened, the proposed OLRA changes and a number of other legislative initiatives would have been vastly different and our economy would be healthier.

We need to quickly transform Ontario's high-risk, hostile environment for business to one of perceived fairness. You need that change if you are to truly honour your social commitments, and we need it to survive.

We are, all of us, in the same boat together and we had better find some way of rowing in the same direction before we hit the falls.

Thank you for your time and consideration.

Mr Carr: Thank you very much for a well-thought-out presentation. I appreciate your taking the time to put it together.

On page 6 you talk about what you see is the problem. You say, "It was created by the Bank of Canada trying to control rising inflationary problems that were centred primarily in Ontario," and then you list the major problems, the higher taxes and so on. In a nutshell that seems to be the problem, and if one is to carry that forward, the solution is to tackle the five bullets there and we would be in pretty good shape.

Anything more specific on some of those bullet points? Should we be looking at certain industries to reduce taxes, for example to spur car sales, reduce the provincial sales tax—something along those lines? Could you be a little bit more specific on those five bullet points of what you would like to see the government do in the next budget?

Mr Eastman: Much as I would love to see dramatically lower taxes, I am not sure how you can get there given the deficit position we are looking at. At this point I think it should be a question of focusing on those non-tax issues that are presenting real challenges for the business community. Things like the proposed OLRA changes—I do not want to beat that one to death, but it is tremendously important. On top of that there have been a number

of legislative initiatives, all of which increase costs to business and then pretend that somehow nobody has to pay for them.

It is fine to do things on occupational safety and health and a whole bunch of other things as long as we, after we make those changes, recognize that we have increased costs and all of us have to pay for them. What we wound up with is a process where we make those kinds of changes, then when it shows up in the consumer price index we turn around and say: "Oh, gee, the CPI went up. We'd better pay everybody more." Well, I thought we said we wanted those things and we were really going to pay for them. You do not do it that way.

Mr Carr: You may have missed it coming in here, but I watched the premiers and the Prime Minister today. You would be happy to know that there was a lot of cooperation. There was no complaining back and forth. Amazingly enough, there was a fair amount of cooperation, which was nice to see. When you see the reports tonight, hopefully the news reports will show it, as I understood it, live and in colour.

You did say on one of the pages where you have offered to the government to come in and take a look at some of the expenditures. Maybe you can just give me an insight on what the reaction has been. The reason I ask that is that I asked the Minister of Industry, Trade and Technology—because you have all your recommendations put together from your resolutions—to take a look at some of those, and he said he would. I just wonder what the feedback is. What has the government said on some of the detailed proposals in your recommendations, plus your offer to help with the spending? What has the government said to you?

Mr Eastman: The basic response has been that the government had its own reviews under way and it was comfortable with its own internal reviews. I think there is some benefit from some outside perspective on that, if for no other reason than to help give those of us on the outside some comfort that the right things are really being looked at.

Mr Carr: What about the recommendations? They are fairly detailed, some of your proposals. How many of them have been implemented or looked at?

Mr Eastman: Jim, do you have the track record on that?

Mr Carnegie: There has certainly been a response to all of them. In some cases they are being looked at. We have not seen a major move towards most of them at this stage, although some of them are somewhat esoteric in their approach. The overall offer, as Don has said, is more or less shelved at this point, but is an oft-times repeated offer. Certainly we have every reason to believe that we have the capability of producing people who can give some good advice in that area. I would never try to run a box score on my provincial recommendations on an annualized basis. I would probably fall on my sword.

Mr Carr: You would be wanting to quit. I congratulate you for keeping trying.

Mr Sutherland: One of your recommendations is about wide-open Sunday shopping, and you talk about it creating jobs. BC has had wide-open Sunday shopping and it still leads the country in cross-border shopping. It brings me back to your comment on the use of the RRSP funds: "The proposal may move jobs around, but it won't create any." I think your proposal on Sunday shopping would do the same thing.

I want to focus in on the RRSP funds. Certainly I am sure, as you know, that the Ontario Home Builders' Association and the Ontario Real Estate Association have come out in support of that type of proposal. I know many of those people and members of those organizations are also members of your organization. I was just wondering if you could elaborate a little more as to what your specific concerns are about the proposal to use RRSP funds. Maybe you could correct me, because my understanding is that housing has a greater ripple effect than money in some other areas. If you could comment on that I would appreciate it.

Mr Eastman: Let me use an exhibit that I will not leave with you. One of the problems with the whole RRSP debate is that it pretends the funds in RRSP accounts are simply bundles of money that are not currently doing anything. You have to look past the sums to understand what is being held there and what happens if you want people to sell those assets off. When you start working through that process, yes, you do gain on housing, but you lose elsewhere.

Mr Sutherland: But do you not get a bigger bang for your buck because of the ripple effect of putting it into the housing market, rather than where it may be invested in some of the other areas that RRSP funds may be supporting?

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Mr Eastman: The only time you get any bang for your buck is if the Bank of Canada permits that activity to get reflected through an increase in the money supply available to the economy. I truly sympathize with the situation the home builders are in. As well as some other sectors of the economy, they wind up taking the lead impact, taking it on the chin when interest rates are increased. They are not the only ones who suffer, but they tend to get hit much more in the cycle than other people.

Mr Sutherland: So the housing industry does not have a greater ripple effect in terms of its dollar going through the economy and getting a much quicker stimulus of the money being invested there than maybe in some other areas?

Mr Eastman: I cannot see where you can make any significant differentiation, that a dollar spent in housing generates more than it does someplace else.

Mr White: I very much appreciate your presentation; some very simple analogies. You start off with the prayer. I am reminded of the Unitarian minister who wrote those books—what were they? *It Was On Fire When I Lay Down on It*, and *All I Really Need To Know I Learned in Kindergarten*.

Mr Drainville: Robert Fulghum's?

Mr White: Fulghum's, yes.

While I very much appreciate the analogies and your descriptions, I am a little concerned with the revenue enhancement. You had a couple of ideas. I do not think they are likely to be on the books in the next while. I wonder if you have other ideas in terms of revenue enhancement. In terms of laying the foundation for economic growth, the emphasis of your discussion really was about what one thing is that we should not be doing as opposed to what it is we should be doing in terms of the budget coming up, because of course the Ontario Labour Relations Act is not a budgetary issue per se. Would you comment about other ideas you might have in terms of revenue enhancement, and as well on other issues in regard to the foundations for economic growth as your paper indicates.

Mr Eastman: One of the challenges we face when we look at the economic prospects that will generate the funds in that budget is that the OLRA will have potentially a tremendous impact. The economic outlook for the province is very different with those provisions than it is without them.

The OLRA is not the only problem. As I said, the positive is what we really want you to do is to find some way of taking the time not to debate with us but to try and really get yourselves mentally into our shoes and understand how some of these proposed provisions will affect us. You have a business community that before this government came into office felt it was under tremendous duress, and that this province had already become a much less attractive place to be in business than it had been previously. Instead of being able to respond to those concerns and react to them, what we have seen has been an acceleration of all the things that created those concerns in the first place.

The Chair: Mr Jamison, I cannot let you ask a question. We have run out of time.

Mr Phillips: A few observations, then a question. I would really like to expand the deficit; we should be showing probably \$4 billion a year. I have felt this way for a long while. "Scam" is too big a word, but to try to understate the deficit, the government has gone to this capital account. It will spend \$16 billion over the next three or four years and show maybe \$2 billion in expenses. I urge you to keep an eye on that.

I think the unemployment number is understated by at least two or three percentage points. Over two years the number of people in the labour force has stayed steady according to the numbers, when we all know it has gone up by probably 150,000 people. If they were there, the unemployment number would be three percentage points higher. I would watch that too.

I have a question for the chamber. The economic renewal plan the government is preparing has three major components; four, really, with the Ontario Labour Relations Act amendments. It has the whole training thing that is in the document *Skills to Meet the Challenge: A Training Partnership for Ontario*. That will probably have a budget of \$2 billion, run by a bipartite board of unions and business. The working venture capital funds are the second component in its economic renewal plan, which, by the way, uses

RRSP money to put into a union-run venture capital plan, which may or may not be a good idea. The third component will be the use of public sector pension funds for investment. Has the chamber had any chance to comment on that? The reason I raise it is I am sure they will all be components in the budget.

Mr Eastman: On the training one, I am really not up to speed on where that fits with the Ontario Training and Adjustment Board. I know there are some concerns we are looking at overall. We need a workforce that has better skills than it does currently. The things we can do to move in that direction we think are positive, and we endorse them.

On the venture capital funds, we have some serious concerns with Bill 150, particularly in terms of the venture capital aspect of it. We have some concern but not as much with the worker ownership component, but we certainly have a concern with a venture capital one that says, "Hey, this is something that is available only through the union movement." We certainly have a problem with that. There is a challenge on the availability of capital to small businesses, in a more open consultation process; I am not sure we would have come to that as being an appropriate solution.

On the topic of how the public sector pensions might get used, we have some apprehensiveness. When we look at what has been done in Quebec, superficially that looks like it has been effective. But one of the problems is that you wind up with jobs you can see and you never get much of a handle on the jobs you cannot see. If you step back from the specific fund and say: "Okay, what has been happening in Quebec? Is Quebec a better place economically now than it was before?" it is hard to say that very much has really happened there.

The Chair: Thank you for appearing before our committee today.

Mr Sutherland: I wonder if we could have research look into a couple of things. I know I am asking for a lot today, but I thought I had read somewhere, and maybe I am wrong and maybe it was from biased people in the housing industry themselves in terms of it having a greater ripple effect for its dollar. I wonder if we could have research see if there is any independent analysis on whether the housing dollar does seem to go a little further.

The other thing is regarding RRSP funds: I would like to know where they are going, in terms of which sectors they are going into, and how much Canadian RRSP money is actually staying within the country versus going out. I know that may be difficult to find out, but I would be curious and I think members of the committee might like knowing where RRSP money goes, whether it stays in the province and country or whether it goes out.

1520

ALL BUSINESS COALITION

The Chair: The next group to come before the committee is the All Business Coalition. Would you please take a seat. I would like to welcome you to the standing committee on finance and economic affairs. If you would you identify yourselves for the purposes of Hansard, then you may begin your presentation.

Mr Surplis: My name is David Surplis. I am president of the Council of Ontario Construction Associations. With me is Mr Neil De Koker, who is president of the Automotive Parts Manufacturers' Association. We are representing the All Business Coalition.

We are delighted to be here representing our coalition, which in itself is an interesting phenomenon in terms of the discussions about the budget. You will see on the previous page the roster of our members, or at least those who attach themselves to the All Business Coalition: over 60 of the major business associations in the province, and we represent about 75% of the Ontario workforce, we have calculated, both organized and unorganized.

ABC is an interesting development because about one year ago we did not exist. The All Business Coalition started just about a year ago when a few of the leading business associations invited colleagues from about 20 other associations to compare notes on a single topic; that topic was access to the new government. It turned out we all had the same complaint: We could not get in to see anybody, despite our overtures. We were routinely turned down or referred to parliamentary assistants or staff.

Mrs Y. O'Neill: They are not that bad. Be careful; you are talking to some of them.

Mr Surplis: I know.

Mr Phillips: Very good meetings, incidentally.

Mr Surplis: Yes, excellent meetings.

The Vice-Chair: Sorry to cut in on the fun, but it looks like you have a fairly lengthy presentation and we have a short time.

Mr Surplis: We are going to zip through it as fast as we can.

Since that time, we have obviously found a mutuality of purpose and a need and a will to speak out on public issues.

We are really a very loosely organized group. We have a nominal chairman, a volunteer steering committee and a list of interested parties. I say "interested parties" because there really are no criteria for membership other than a willingness to support and participate in our affairs.

You might recall we also funded the first study of the economic impacts of the Labour Relations Act changes, the Ernst and Young study. We have been involved in a number of other things: radio ads to welcome Mr Mackenzie in each city where he went on his tour, and we have posters and some other things that you are probably familiar with.

This is all by way of background simply because we want you to know that this is a coalition effort and what we present is more or less a consensus view of the members.

We do not have to point out that we are in extraordinary and difficult economic circumstances. Our members are in dire difficulty right across the board. That is why, of course, we have a concern in the affairs of this committee. We want to play a role, that is, all the business associations involved in ABC, because everything that is lost in Ontario is a loss to us and we want to help any way we can.

Regrettably, however, we do not believe the present government is helping Ontario enough along that road. As

a result of our research and our experience, we genuinely and sincerely believe that many of the government's programs do not help us out of the depressed times but actually deepen them. We need some help in that regard because Ontario is not, and cannot be, a closed economy. We want more emphasis on the private sector because traditionally that sector has produced the most for Ontario.

We listened with interest to the Premier on January 21, but we came away a little dissatisfied. Yes, there were some positive remarks in there, but we noticed a lack of emphasis on the private sector totally in what the Premier had to say. In our opinion, the very best part of the Premier's speech was when he said, "I have confidence that, if we pull together, the greatest years for Ontario, and Canada, are still ahead." But those were his very last words in his speech. We had hoped he would have begun with those words and built on that.

We want to see the inspiration, and blend our efforts with those of the public sector, because the private sector is so important. The importance of the words "pulling together" cannot be emphasized enough, because if there is one message the All Business Coalition wishes to bring to government, it is the expression of the business community's sincere belief that we not only see very little evidence of partnership developing, we also see the government placing real impediments to that pulling together to improve the economy.

Here we must outline once again—I know the previous comments were that it was not a budgetary consideration, but to the economic community, to the business community, to the All Business Coalition, the proposed amendments to the Labour Relations Act are very deep and sincere and relate directly to our opportunities for growth and development in this province. Our opposition to those changes has been expressed in many, many ways, but our message is very simple.

The reason for our opposition lies in the fact that we in the business community had absolutely nothing to do with the development of those proposals. Second, when they were leaked via the cabinet document—you know all about that—there was a passage in the communications plan that said the voice of business was supposed to be "neutralized." Whether or not that is the case, it was something that was published and it was part of a government document. A third reason, of course, is that we have been told by the government that whatever the consultation process is, many, if not most, of the proposals are non-negotiable.

The drive to do all that we think hinders a coming together of business and labour and government interests in the best interests of renewing the economy. We are really astounded that anyone would fail to see that the way those proposals have been brought in will not produce harmony. Proceeding from a single set of proposals put forward by one group just will not work, any more than it would work the other way, if management had a whole set of proposals and left labour out and tried to neutralize its voice.

We have repeatedly called as an organization for the opportunity to sit down with government and labour and pull together. Unfortunately, every overture in this regard

has been rebuffed. Instead of cooperation we are witnessing increasing division as both labour and government representatives attempt to discredit every initiative of the business community. Labour and management are eyeing each other over ever-growing barricades. We fear that this division will grow to a battle and from there to a wasteful war of attrition in which there will be no winners and many losers.

What really concerns the business community is what we discuss in the next part here, and that is that the seemingly unresolvable differences between labour and management vis-à-vis the Labour Relations Act have been moved from the workplace to here, to the Legislature, and because they have been moved here, the perception of Ontario as a place for stable investment has been seriously challenged beyond our borders. It must be evident to everybody from the comments in the press and everything that the Japanese, the American and other jurisdictions are questioning the investment possibilities in Ontario. We think that is truly regrettable.

We must also here voice our deep frustration about both the lack of consideration for our concerns and indeed the denigration of our sincere and honest warnings as "scaremongering." It is extremely difficult for us in business to understand how anybody could seriously believe that the business community would do anything to hinder growth and development in the province. That is what we are here for. It is our mission. We also know, of course, the downside, the loss and dislocation and everything that occurs with a downturn. Decreased investment and enterprise mean loss of confidence, loss of jobs, loss of profits, loss of taxation, etc. You can see what we say about that. You know all that. You have been told that. The point we want to make is that we are not interested in scaremongering. We are genuinely concerned about recovery and growth, but that does not mean, of course, that we will sit quietly by when we see forces at work that could threaten recovery and growth.

Through the facilities and cooperation of our allies in Project Economic Growth and the More Jobs Coalition, both of which I think you are hearing from, we have presented many, many studies to government, but every study and every presentation has borne the same message. The proposed Labour Relations Act reforms will bring with them the message that anybody contemplating investment in Ontario had better be aware that this province intends to promote unionization to an extent unprecedented in Canada. Anyone contemplating investment in Ontario had better be aware that the province intends to give those unions power over the workplace to an extent unprecedented in North America.

1530

Investors are leery. Wherever one stands in the political spectrum, it is an inescapable fact that investors do not consciously seek out jurisdictions where the perception is that the playing field is not level, and the perception of the business community inside and outside Ontario is that the playing field will not be level should the government's proposal be implemented. We cannot emphasize that strongly enough. Those are not our words; those are the

words of people outside the province, and it will deter investment.

We have a list. Mr De Koker can go through the list of announcements of cancelled investment in Ontario already, for instance, the Hayes-Dana plant. The postponement of that investment has been specifically linked to the introduction of proposals for change in the Labour Relations Act.

That is what we are worried about, driving away investment and driving away the opportunity for an economic renewal which would bring a return in taxation revenue, among many other things. But it would appear that the government's approach has been to tough it out and find reasons to reject the studies we do. We are confused, of course, why anybody would go forward with proposals without adequate study of the economic impacts.

As I said, we in the ABC commissioned the earlier Ernst and Young study which surveyed investments, and you all know that 86% of the respondents said the passage of the reforms would lead to serious job loss in their businesses. You also know that the government immediately dismissed the study as unreliable because the questions asked related to all the matters in the so-called Burkett report and the leaked cabinet document, but the government claimed, "Of course, those aren't things that are going to be in our discussion paper."

The All Business Coalition and specific members of it had an immediate response. If the government would not accept the survey based on the leaked cabinet document, how about accepting a survey based on its own discussion paper and on its own preferred options? We will soon find out, because my own organization, the Council of Ontario Construction Associations, has commissioned Ernst and Young to do just that, and the results of that survey should be available very soon. It is our expectation that the survey will reveal that the discussion paper, with the perceived threats to the business community somewhat reduced—as you know, a number of things have been thrown out—will result in a concomitant reduction in job and investment loss, but, sadly, we are expecting that the results will still be completely indefensible: very high job loss and severe investment loss. What we obviously see is reducing those proposals to a zero effect, negative effect, and we do not know if that can actually happen.

In terms of Ontario's finances and economic affairs, we are here to stress the point that the perception of investors is extremely important. For Ontario to grow and prosper, this jurisdiction must not only be a good place to invest but it must be seen to be a good place to invest. Unfortunately, we must tell you that both we and the investors outside the province perceive a distinctly anti-business atmosphere in Ontario at the moment. We have put together a little list of things here to give you an idea of the consensus in the business community. We are worried about campaigns, for instance, which appear to dissuade private initiatives in rental housing, home building, day care, health care, and the list goes on. The scenario we see—I did not hear all the chamber of commerce report, but I know it feels the same way—is new taxes, higher taxes, increasing deficits, reduced service for municipalities, hos-

pitals and universities and galloping government interference in virtually all aspects of business life.

It must also be remembered that in addition to government initiatives, there is also the prospect of seemingly uncontrolled spending at the Workers' Compensation Board. Interestingly, when you talk about deficits, the deficit announced last week of the Workers' Compensation Board rivals that of the government itself. So bear that one in mind.

We hope you believe us when we say that carrying this message does not bring us any satisfaction. We have heard it contended that All Business Coalition members are motivated by partisan considerations and are opposed to the government. Nothing could be further from the truth. At our meetings—and they are quite frequent and quite large—we are motivated by concern for the economy and are opposed only to policies, programs and actions which are harmful to the economy.

Unfortunately the Minister of Labour now tells us that because we have complained about the way we have been treated, we have virtually killed any opportunity for rapprochement or consensus with labour and all that remains is the prospect of a battle royal over the Labour Relations Act proposals which will further bemuse and deter investors. But you remember an old political maxim, "When they're talking, they're not shooting," and in the interest of Ontario's finances and economic affairs, we urge this committee to develop proposals for the Treasurer that will encourage pulling together rather than pulling apart—or shooting, to go back to the analogy.

Turning to other issues, the standing committee will be hearing much more directly from many, if not all, of the individual associations that make up ABC, and certainly the Treasurer will be, and many of them have specific suggestions for you. For our part today, we hope it will be helpful to hear a consensus viewpoint from a very large group of business and trade associations on a number of matters.

The first thing that comes to our mind, of course, and something the chamber mentioned earlier, is the collective debt load. When we look around this province, it is not just the provincial deficit we see and not just the federal deficit we see, but we also see the debts or deficits of Ontario Hydro, the municipalities, hospitals, colleges and universities, and most recently and as I alluded to earlier, that unbelievable sink-hole known as the Workers' Compensation Board. And while of course it is true that most, if not all, governments employ deficit financing to varying degrees, we see the mounting debt load as a very serious impediment to progress in Ontario.

The public does not generally see a lot of the burdens that are hidden in these taxes and assessments and so on. To take an example out of my own industry, there is a burden in the Workers' Compensation Board in one particular part of the construction trade wherein the companies have had to pay increasing assessments to the WCB that have grown at over 1,400% in 20 years; that resulting, by the way, in this individual company paying \$5,600 per worker per year before he or she lifts a tool. That is just for WCB. Then you add in all the other things in there,

unemployment insurance, CPP, employers' health tax and so on—which are fine; we are not arguing against benefits, but we would like the committee and the public to realize that overwhelming costs of business are harmful to us, and they must be noted and addressed. We are not saying that benefits and so on are out the window, because that is not true. Higher costs, even at very high levels, are bearable, as long as there is high productivity and concomitantly high return for those costs.

We hope that the deficits will be addressed. We are optimistic that we can together address those kinds of things. As we mention here, we are optimistic about the proposals put forward by the government for retraining and adjustment of the workforce. That is the kind of thing we can certainly work with you on, and we are all part of it now anyway, but rejuvenating the economy will take much more than just a retrained workforce. Investors and management must be convinced that they will be able to apply their resources in the most productive, efficient and timely manner. In other words, there has to be that positive climate we were talking about.

Right now we see examples of distinctly anti-business sentiment finding expression in government circles. Yes, there has been a program to put \$700 million into capital projects. Yes, the Minister of Industry, Trade and Technology has attempted to secure sales offshore. But against these efforts must be balanced the apparent desire to emphasize social programs instead of, rather than together with, economic programs. We hold it self-evident that social programs cannot be initiated and maintained without an equal emphasis on job creation in the private sector.

1540

Just briefly on the subject of taxation policy, it is obvious with the current shortfalls and the continual addition of social programs that higher taxes and newer taxes are going to be absolutely unavoidable so that we can avoid those deficits which would crush us all. We are naturally in favour of improving the fairness of the taxation system, but if "fairness" is taken to mean more and more taxes on the business sector that provides the jobs in Ontario, we cannot see either the fairness or the economic sense. Business must be stimulated.

For instance, we just want to make a quick reference to the documents from the Fair Tax Commission announced by Mr Laughren. The question which those working documents put to the working group on corporate tax is not, "What kind of stimulus can be given to businesses so that employment can be increased and taxation revenue therefore increased?" The question put by the government to the committee is, "What type of corporate minimum tax would be most effective at improving the fairness of the tax system by ensuring that all profitable corporations pay a fair share of the corporate tax burden?"

That question is loaded with bias and innuendo against the business community. It does not ask if a minimum tax is necessary. It simply asks which one we can implement. Second, it raises the spectre of that hoary old thing—back to David Lewis's days—of the "corporate welfare bums" argument, as though it was the corporations' fault that various governments have chosen tax policy as a means of

stimulating growth in certain areas of the economy. The point we are making is that business will not be attracted to a jurisdiction that is perceived to have punitive taxation policies which emphasize ideology instead of the principles of economic growth and development. What we are saying is that the best way to pay for social programs is by promoting economic programs that increase employment and therefore raise tax revenues.

We welcome this opportunity to expand on some of the issues which animate the All Business Coalition and its members. As to positive suggestions, you will be hearing many from our colleagues, such as undertaking a capital works program suggested by the Premier and using creative taxation policy to stimulate the economy. For instance, some of us will remember that a decade or so ago, the Treasurer of the day gave a provincial sales tax holiday for the purchase of new cars, and a strong resurgence in the automobile market was the result. The same kind of thinking can apply to the new housing market, and we applaud the suggestion of the Premier for allowing RRSP funds to be used to buy new homes, if that turns out to be viable and so on. It is the kind of thing we are looking for: stimulation, not regulation.

So we are all in favour of stimulating growth by creative and workable means. We will cooperate with the government—we have said it a million times—to implement any such plans to the limit of our abilities. But there has to be cooperation on all fronts. We would like very much to see the elimination of a current tendency to portray issues in terms of "us and them," "we and they." We would also like to see the elimination of non-negotiable items. I know that is a great thing in collective bargaining, but we are not in collective bargaining. We are setting policies and programs for the whole province. In the absence of a movement towards cooperation, Mr Chairman, we can tell you that the next three years will see protracted and increasingly bitter confrontations between labour and management over government policies. We do not want to see that.

As we said at the beginning, the ABC is a unique phenomenon in Ontario politics. Those of us involved in it, like Mr De Koker and myself, are absolutely amazed at the strength of commitment and cooperation displayed by virtually every business employer and association of business employers in Ontario. This has not happened before. The voice of business has never been so united or so focused. We have funded studies. We have purchased radio and newspaper ads. We are producing posters and otherwise preparing for what appear to be provincial campaigns, like an election campaign or a leadership campaign, across the province.

As we said before, the ensuing battle will not be contained within Ontario's borders. The international investment community will be watching every move. In fact, I have a clipping from a newspaper headline from just a few days ago that says, "Push is on to lure firms from Ontario." Other jurisdictions are here trying to lure companies away. That is not good for Ontario.

If there is a message we want to leave with you, it is that despite all the negative sides that we felt we had to

impart to you, despite all the negative criticism and so on, we still believe there is time to create hope and restore confidence. The upcoming budget can contain incentives for business to get on with job creation. Municipalities can be freed to give incentives to factories and other job creators. Shopping laws can be tailored to maximize commerce, and whether that is moving jobs around, it certainly has to be addressed. It would be much preferable if it increased jobs and commerce.

Most important of all from the All Business Coalition's point of view is that business can and should be invited to sit down with our counterparts in government and labour. We have offered it over and over, and that is all we would like to do. Should these things come to pass, the image of Ontario would be greatly improved and we would have a much better opportunity to restore the province to its traditional role as industrial leader in Canada.

That is what we are here to tell you, and we thank you for that opportunity. We would certainly be happy to answer any questions about ABC and our consensus viewpoint.

The Chair: Okay, we have three upcoming questions from the government side, starting with Mr Johnson.

Mr Johnson: I listened to your paper and read along with interest, and I have to say that some of what you advocate is sort of like a self-fulfilling prophesy in my opinion. I mean, you are out telling the world that Ontario is not a good place to invest. If the rest of the world is listening to you, then surely to God the rest of the world will think Ontario is not a good place to invest.

You talk about Ernst and Young and the report they made as a result of investigating a paper that was not, in fact, the legislation that was drafted, but something prior to that. So now we have a reaction to something that was not something to be entirely concerned about, and that would indicate that people have a misconception, or a misperception if you will. I am very curious to see what the results of their new poll tell us. You talk in your paper about innuendo and bias. I kind of get the feeling that maybe the All Business Coalition has some innuendo and bias when it looks at the changes to the Ontario Labour Relations Act and what they were initiated for.

My question is: Do you not think that labour inadequacies in the Ontario Labour Relations Act have been a problem in the past and that changes that will make relations more harmonious are the intention of these changes? Do you not think that in reality these things can happen? I mean, we are looking at a global economy now.

The Chair: Mr Johnson, could you get the the question out? We are members.

Mr Johnson: We will leave it at that, then. There is so much to say and so little time.

Mr Surplis: Thanks, Mr Johnson. I will try to be very brief in responding. It is not that we are telling people that Ontario is a bad place. When we wrote this document we wanted to show you that we are not saying that; that is what outsiders are saying. That is what the investment community in Chicago, Japan and elsewhere is saying.

Mr Johnson: Why?

Mr Surplis: Why? Because we have responded to a one-sided agenda. The whole answer is this. The government could have come to us and said: "Look, there are all kinds of problems that we perceive in certification, petitions and all that kind of stuff. Let's sit down and talk about them and together come up with some solutions." It did not do that. The government produced a one-sided agenda to which we responded: "Hey, that is not fair. Let us have some input, too." This is a two-way street; it is not a three-way street with government as well. That is why we are upset. It is not our perceptions.

1550

We have not even heard the inadequacies of the Labour Relations Act spelled out fully. We have done other polling too—with Environics, for instance. We asked the public: "Are you unhappy with the state of labour relations in Ontario?" Yes, they are upset about strikes and so on. We will share all that with you, and we have some more polls on that too, but we do not see any great demand from the public for increased unionization. In fact, there is a trend away from that.

What we hoped to tell you, Mr Johnson, is that these are not our statements. These are culled from the observations of others who are watching you and watching us wrestle with this problem, and who are saying, "Gosh, they can't solve this thing, so maybe it's not a good place to invest."

The Chair: One quick one, Mr Sutherland.

Mr Sutherland: Hayes-Dana, which you mention in here, said that it is because of the labour relations, but in fact Hayes-Dana is an automotive parts supplier mainly to the Big Three, primarily General Motors. How can an outside, independent observer really tell whether it is specifically just the labour relations or it is due to some of the downsizing going on among the Big Three auto parts suppliers, which they service primarily?

Mr De Koker: They service the Big Three. They also service other large trucking companies and a number of the Japanese investors, as well as large tier-1 suppliers. General Motors is not their largest customer as far as Hayes-Dana is concerned here in Canada. Very specifically, I have spent a lot of time as president of the Automotive Parts Manufacturers' Association of Canada, and the president of Hayes-Dana is vice-chairman of the association. We have spent a great deal of time on this, and this, very seriously, is the reason they changed that investment.

To counteract the concern that one example is probably unfair, in my presentation to Mr Mackenzie last Tuesday I listed six companies that were willing to put forth their names. A lot of them are not willing to do that. That is why we have difficulty having very specific examples. There are significant concerns about stating publicly what you will do or have done, business that has been moved and so forth, because it is anti-Ontario and anti-employment here and that is not a good thing to do. By and large, businesses on an individual basis have kept quiet, but there are a great many that are speaking very quietly but loudly by simply shutting down and moving. A lot of that has happened.

Mr Phillips: I really appreciate the presentation. You have a big problem because I think the NDP genuinely believe the only fair workplace is a unionized workplace. I do not believe that. I think unionized workplaces can be good workplaces and non-unionized workplaces can be good workplaces, but it is a culture that all of us are dealing with. I think if you want to see the government's economic agenda, it is the Ontario Federation of Labour's economic agenda. In fact, the OFL will not come to this committee. It is saying, "We will deal directly with the Treasurer."

My question to you is, has the All Business Coalition had a chance to look at the government's economic proposals around the venture capital funds for the unions, around the use of public sector pension funds and around this—I realize you spoke favourably in your document towards this presentation and I just wonder if your group has had a chance to look at it. I see their economic renewal plan having four or five major components. One is the labour relations changes; second, the pensions; third, worker capital venture stuff; fourth, OTAB, and fifth is probably the industrial strategy they will announce shortly. What would ABC's comments on those be?

Mr Surplis: I will tell you quickly that ABC is a consensual group; we do not have a research basis or anything. That will be answered by our individual members much more directly than by us, I am sorry to say, but they all do have comments. For instance, we in the construction industry will be part of the Treasurer's committee on another aspect of the budget and will obviously put forward things there, too.

Mr Phillips: Right.

Mr Surplis: This is just the group, and as a group we do not have a position on that yet.

Mr Phillips: Yvonne, did you have a question? If you do not, I have another one.

Mrs Y. O'Neill: Yes, please go on.

Mr Phillips: You mentioned the \$700 million capital program. I do not know whether anyone has noticed that the Premier is talking about spending money on capital, but they have cut \$400 million of the \$700 million out of the budget already, and heaven knows what by the end of it. Have the construction trades noticed the reduction in the capital expenditures?

Mr Surplis: We were given a list by the Minister of Industry, Trade and Technology that totals up to \$700 million.

Mr Phillips: Their third-quarter results just came out and they have cut \$400 million out of the capital; \$400 million of the \$700 million is gone.

Mr Surplis: Yes, we will be addressing that, as I said, in another venue. We have a long data base that shows the multiplier effects of construction and so on. But also, in fairness, I tell you, I have a list that totals up to \$700 million from Mr Philip. so I am not sure. We have not had a chance to go through it. It is a great document, but it is there.

Mr Phillips: I wonder what is happening there.

Mr Surplis: I do not know.

Mr Carr: I appreciate your taking the opportunity to come here.

I was interested in page 2, where you say the coalition was formed because no one could get basically through to the government and consult. I think some of the points you made are valid. I speak to people all the time and they say: "We know you're supporting us in this particular concern, whatever it may be, but the reason we don't want to come out is because we have to deal with the government. We spend millions of dollars on our corporate image for advertising, and coming out against the government is negative regardless if you are right or wrong."

Your coalition, putting business together, can act as a front. Putting some of the powerful groups together here I think is very important. But since it was formed on the premise of not having consultation and now that you have been very aggressive, as you say, in trying to get your message out, do you see the shift on behalf of the government to wanting to cooperate more? Are you moving them further along? I sense there is a little bit, more out of panic than anything else on the other side, because they realize they are going to be judged on the results. I wonder what your thoughts are. Is the government listening in any of these areas?

Mr Surplis: We have had more meetings, that is for sure. We have been in to see Mr Mackenzie and Mr Philip a couple of times. Certainly as a group we have never met with the Premier.

Mr De Koker: I can add to that. We as three coalitions, the More Jobs Coalition, Project Economic Growth and the All Business Coalition wrote to Premier Rae in November asking for a meeting to discuss these very serious issues and we have not as of today even received a response to that letter.

Mr Carr: I was a little optimistic. I guess I should not have been. One of the questions I have relates to automotive. As you know, Ford is in Oakville. One of the concerns Ken Harrigan had, with the auto sector being so big in Ontario—not only as individuals but the parts which you are familiar with. They had a problem last year when they introduced that gas guzzler tax. At that time they said, "Here we are gearing up, our Grand Marquis are the ones making money in full production down in St Thomas and you slap a tax on them."

People hate taxes. They will pay \$75 if you say that is what it costs to wash the car. If you say it is going to taxes they will say, "We don't want to pay it." If nothing else, if they listen to you before some of these things come in this time it will be worthwhile.

What is your sense with the Treasurer as it relates to the automotive sector? Are you going to see any improvements in some of those areas with regard to taxes and helping you out? What is your sense about it specifically for the auto parts people?

Mr De Koker: My sense at the present time is that there is still not much listening. We are talking very seriously about the gas guzzler tax and the impact of it and some of the other things. I visited a number of dealerships in the last four months and it is really sad when you hear a

salesman talk about closing a deal until he adds 15% on top and someone says, "What is that?" And you add the PST and GST and it is a killer to a \$20,000 purchase, \$3,000 more on top of it, and that is what is really hurting.

If there were some way, as was suggested in here, as an incentive to have a tax holiday for a period of time. I think you would see amazing things if you created incentives for growth rather than additional taxes and additional burdens on industry. I think we can create positive things that could really help.

The Chair: We have run out of time. The clock has run out there. I would like to thank you gentlemen for coming before the committee with your brief. It will be considered in the report.

Mr De Koker: Thank you for allowing us to be here.

ONTARIO FEDERATION OF AGRICULTURE

The Chair: I call on the Ontario Federation of Agriculture to present its brief to the standing committee on finance and economic affairs. I would like to welcome you here. Would you identify yourself for the purposes of Hansard.

Mr George: Good afternoon, Mr Chairman and ladies and gentlemen of the committee. My name is Roger George. I am the president of the Ontario Federation of Agriculture. With me are Carl Sulliman, OFA's chief executive officer and executive director, Cecil Bradley, manager of research, and the remainder of our research department, Ed Ketchabaw and David Armitage. I believe we have half an hour. Is that correct?

1600

The Chair: Forty minutes.

Mr George: That is even better. I am going to take 10 or 12 minutes and go quickly through the brief you have before you, just hitting the high points. I certainly do not intend to read it all. Then hopefully we can get into some more meaningful dialogue through this.

Just for the record, I will say that OFA is the largest general farm organization in the province, with approximately 20,000 voluntary individual members and 29 affiliated commodity and education groups in membership. We have representation in 47 counties and regions across the province, so we are well represented. From just about wherever there is a farmer in the province we have a federation of agriculture.

Our brief is organized into five or six chapters. The first chapter outlines the importance of providing continued government support to our section, chapter three discusses the need for a comprehensive farm credit package, in chapter four we identify some tax issues and chapter five looks at the importance and the continuing work of the farm income safety nets. We are quite excited about chapter six, our new environmental farm plans, and we will have a document to put forward for the record as well on that. Finally, OFA's concern within the broad topic of rural development is presented to you in chapter seven.

Turn to page 2, section 2.1, agriculture's share of the provincial pie. Once again we come before this committee to say that agriculture's share of the provincial budget is

less than 1%. It has been now for the last four years and that is if we take out the farm property tax rebate, which is \$150 million-plus, which we certainly do not recognize as any sort of government initiative. We just see that as a redress of an inequitable tax that we should not have paid in the first place. To put that 1% in perspective, there are groups out there at the moment arguing, with some justification, I may add, that agriculture should be getting up to 5% of the provincial budget.

Moving right along—as I say, I am just going to hit the highlights here—in arguing our case for continued and indeed enhanced provincial government assistance for our industry, I think we have to take a good look at the economic factors of our industry, the amount of jobs that agribusiness does provide. It is not just farmers here. A vital and healthy agricultural sector can well be the building block for economic recovery and certainly plays a key role in the economy of rural Ontario and indeed the total economy of the province.

Therefore, despite the rather gloomy projections for a massive \$14-billion provincial deficit, the OFA firmly recommends that this is not the time for the government to look at agriculture's share of the budget—as we said, less than 1%—as a target for cutbacks. Rather, we believe that the government should be looking at agriculture as a vehicle to invest in for the future to help create more economic activity for this province.

Chapter 3 deals with farm credit and finance. We have been over this ground many times. I am not going to take you through the three or four pages we have here, because we have submitted all this for the record before. Just to hit on the highlights, section 3.1 deals with immediate credit needs. These are things we would hope that the Treasurer would be able to address very shortly, the most critical of which being the crop insurance-based loan program.

Rather than getting into the details of this, because we have had committees working with Mr Hayes and other members of the government and the Ministry of Agriculture, the crop insurance-based loan program is a new program that is urgently needed in time for the spring planting. I think we are just at the point where we are waiting for some cabinet approval on the types of guarantees the government would have to put up. It is not really going to be an out-of-pocket cash cost to the government; it is a question of guarantees we are looking at and this will have a profound effect on the ability of farmers to have the availability of credit this spring and get on with the job at hand of planting that crop.

In addition, we commend to you for speedy results the beginning farmer income insurance enhancement program, under which we are looking for government to help beginning farmers to pay their insurance costs for, say, crop insurance and safety nets, and third, to deal with the issue of getting legal aid, making moneys available for legal aid and accounting assistance for farmers in financial distress who are probably going through the debt review process or whatever.

The \$3.5 million that the minister announced in his special package last fall for farmers in distress once again fell short of helping these individuals. Many farmers, and

there are getting to be more all the time, who go through whatever types of legal process they have to go through do not have available to them good legal counsel or any process from government where they can get assistance to pay their legal costs and get the type of sound financial assistance they need in these difficult times. Those are the three big ones.

If we turn to page 5, right at the top, I just want to put before you what is a new suggestion from OFA's point of view, an interest rate renegotiation proposal. While we have not worked out the details, the idea would be that at a time when many farmers are left sitting there with 13% or 14% mortgages and now long-term mortgages can be had for 8.5% or 9%, it might be worth thinking about a program that would pay or help to pay a farmer's penalty involved in renegotiating that mortgage down from 14% to, say, 9%. I think that would probably be a very good bang for the buck. When we look at the leverage factor, a few thousand dollars upfront to renegotiate a mortgage rate could save that farmer many tens of thousands of dollars over the term of that mortgage. That might be something we need to do some work on and we commend that to your committee for thought.

With that I am going to move to page 7, section 4, on tax issues; getting back to section 4.1, an old favourite, property taxes. We understand that once again, from the Ontario Fiscal Outlook, the farm property tax rebate is being reviewed by the treasury board with an eye to reducing expenditures. The farm community had an extensive consultation with our Minister of Agriculture, Mr Buchanan, before Christmas. Our formal advice to the government was then, and still is, that we give fast-track consideration to the property tax issue by the Fair Tax Commission. We really believe that it is the place where it should be looked at. We do not expect this government to start taking property tax apart piece by piece before it has gone to that commission.

Second, we suggest that the government renew the current order in council for periods sufficient to allow the Fair Tax Commission to complete its work. Going into 1992 we do need a new order in council for this fiscal year. The program, which has a two-year mandate, has expired as it is.

In section 3 we do agree with the fact that strict administration of the current program criteria should be done to control costs and eliminate abuse. If there is any abuse there, and we do not know to what extent there is, particularly along the lines of those farmers or where land has been sold for development, there is provision in the order in council in the legislation for cost recovery, for property tax rebates to be recovered. We do believe that should be followed up on. I do not think that in the past there has been much recovery. We agree with our minister that the government should go after that.

Beyond that, we are basically saying to leave the property tax issue alone and let the Fair Tax Commission do a thorough review. I think the property tax issue for farmers becomes a very important and critical thing, particularly at a time when farming incomes and cash flows are very tight, the fact that now farmers do not know whether that

tax rebate is going to be paid or not because the order in council is not in place. That causes some nervousness in the farming community and, as you know from past experience, it has always been a top priority of our organization. It would be a real political hot potato if there was any attempt to fiddle around with it beyond the recommendations we made.

1610

Item 4.2, again an old favourite, and is the issue of tobacco and wine products. Once again I stand before this committee recommending to the Treasurer and the government that the government consider the fairness of its taxes, particularly the fairness to those prime producers of tobacco and wine products. Time after time it seems that the sin taxes are the easy taxes to grab and there seems to be precious little concern for those prime producers who ultimately end up paying a price as consumers stop using that product to one degree or another. So again we would recommend to the Treasurer that he take a good hard look at his other options before he once again comes down hard on those two sectors.

We move to page 8 on safety nets, and that is GRIP, the gross revenue insurance plan, and the net income stabilization account. We have had those programs now for one year. It has been a learning process for us all. There will be evolution of those programs. We recommend to the provincial government that the GRIP and NISA programs be expanded to provide adequate protection to all sectors of the industry. In particular we have red meats—hogs and beef cattle—that are interested in getting in, as are horticultural products. I believe there was a decision made by ministers when they met last Friday in Ottawa to give active consideration to widening the safety nets to include some of these other commodities, subject to the provincial and federal governments' ability to finance those. It does become a very important issue for those producers, many of whom feel they do not have equitable treatment with other sectors, particularly the grain sector. That becomes an important thing.

The other issue that is before us on safety nets with fiscal ramifications is the fact that the target prices and the premiums for the 1992-93 crop under the GRIP program are not what farmers are going to like to see. The coverage has dropped faster than we would have liked to see it and the premiums have gone up a little higher than we would like to see them, too. We are looking to see if we can adjust the formula within the spirit of the act to make allowances for that. Again, that may well have some fiscal ramifications for government. We are at the same argument we were at last year. We cannot let these producers swing in the wind. They have to have that support to get us through to the brighter days we hope may be ahead.

Page 9 deals with the environment. I am going to ask David if he will pass out a new document which we call our farm environmental agenda. This document is the result of six or seven months' work by a coalition of farm organizations led by the Ontario Federation of Agriculture, the Christian Farmers' Federation of Ontario, AGCare and the Ontario Farm Animal Committee. In addition to that there were another 28 groups working with us and we have

produced this document, which is our vision of and our commitment to the environment.

We believe farmers will—we know they will because farm groups will be encouraging them to—take a good look at what goes on on their farms and develop individual environmental farm plans. We believe by doing it this way and by giving farmers the necessary assistance they need—there will be a need for some assistance on capital facilities in some cases: Manure storage is one example. Certainly they will need training and probably some financial assistance in helping them put these farm plans together, but in the long term our target is to get 40,000 farmers to have environmental plans by the turn of the century.

We believe this farmer-driven commitment is going to be far better and accomplish far better environmental results than any government program and any government legislation ever can. This is farmers creating their own destiny on environmental issues and we are very proud that we have been able to come to a consensus in the farm community to set a standard that I think is going to be a far higher standard than you could ever hope to legislate, because when you legislate you end up working with the lowest common denominator.

We recommend, as we say in our brief, that the Ontario government consider paying farmers a development fee of \$250 upon the completion of an environmental farm plan. We believe any of the measures that are needed on environmental issues of a capital nature should get some government assistance. We will be also talking to the federal government through the Green Plan for some of this assistance. But things like low-interest, long-term loans such as those presently provided to farmers under the Tile Drainage Act might be the type of thing we need to be looking at for the future once our environmental farm plans come in place.

At the bottom of page 10 we talk about fuel ethanol. Again, I think that becomes an important issue. We believe the federal government is showing signs of making progress to this end and we certainly commend it to the Ontario government to look at that again. We recommend that the Ontario government continue its present tax exemption on ethanol, which is used as a transportation fuel, and work to develop other strategies to assist in creating an increased consumer demand for ethanol-based gasolines and be supportive of any initiatives by the farm community to get ethanol plans going.

In light of some of the trade negotiations and the thought that there are many hundreds of thousands of tonnes of corn that are currently fed to supply-managed livestock that may or may not have a home in the next couple of years, one of the comments we make is that ethanol production is one market for some of our grain production in Ontario that may otherwise be looking for an export market.

Finally, on page 12 we talk about rural development. We have spoken about that many times around here. Let's get on with it. Let's get down to business and get some programs going. We all have different visions for rural development, but there is a need for the government to

recognize the rural system and let the rural system structure itself to meet its own needs. So OFA recommends once again that the Ontario Ministry of Agriculture and Food take the lead on an interministerial rural development coordinating committee. We firmly believe that the Ministry of Agriculture and Food should be the lead group there.

We recommend that the government develop a type of grant program and get some pilot projects going to provide start-up funding to rural entrepreneurs.

Before I close, I want to talk briefly about the trade negotiations. As you know, they are coming to a critical time in Europe. Maintaining the balanced position, which is to on the one hand clarify and strengthen article XI of the GATT, which is the article that allows us to maintain our supply management, is the critical issue. The other side of the equation is to eliminate or at least greatly reduce the export enhancement programs which have caused such devastation in the international grain circles.

While trying to maintain that balanced position, we are very concerned at this point in time about the threat that tariffication will bring to our supply management sectors. I do not think I need to tell any of you people about that issue; you have been reading the papers in the last two or three weeks. Our minister, Mr Buchanan, I know has been giving tremendous support as has the Premier to those farmers in supply management, but we are coming to a very critical period of time and on 18 and 19 February, which is next week, 300 farm leaders will be meeting in Ottawa, hopefully with the Prime Minister, and at that point in time we expect the national supply-managed groups to be calling a national rally.

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The OFA is currently in the process of working with all commodities in Ontario to put together farmers, rural people, friends of rural people, MPs, politicians, anybody we can get on the buses to come in support of the Canadian farm family, because on Friday 21 February we are going to put together the rally of all rallies in Ottawa. We are hoping to have as many as 25,000 people on the Hill in support of not just supply management, although it is a supply management focus, but of Canadian farms.

From coast to coast—it does not really matter what commodity you are involved in—if our supply-managed sector is badly damaged by the GATT negotiations, over time that is going to have a profound effect not only on those producers of dairy products and feather products but on every farmer across the country as we start to see feed suppliers, processing plants, tractor dealerships, and local hardware stores close down. The spinoff effect is going to be profound.

Supply management accounts for about a third of Ontario's agricultural gross dollars, significantly more when we talk about net dollars in agriculture. There are going to be many tens of thousands of people in this country who, I am afraid, are going to wake up too late if we do not make the statement now.

So I would commend to each and every one of you and I invite each and every one of you to join us on the buses. Get on your own constituency buses and be in Ottawa on

Friday 21 February in support of the Canadian farmer. Thank you, Mr Chairman. We are open for questions.

Mrs Y. O'Neill: Thank you so much, gentlemen, for coming today. I want to thank you for sending us your news bulletin on a regular basis, because it is very helpful to us.

I do not think I am going to ask you questions on the GATT and the supply management question because I think you have a lot on the record on that and I think we are pretty much up on that issue. You have talked a bit about the tax commission. I wanted to ask you what your input into that has been. Are you on some of these working groups that you have mentioned, for instance, the real estate, the corporate wealth tax? Are you represented there?

Mr George: We are involved in some of those committees. I am going to ask Cecil Bradley, our research manager, to expound on that.

Mr Bradley: Yes, we have a representative on the land speculation, wealth, environment and taxes. We do not have directly an organizational representative on the corporate minimum, although through our relationship with The Co-operators we have been in touch with that individual and have been able to keep a watching brief on developments before that working group.

Mrs Y. O'Neill: Okay, I hope you will continue to have your input there because I think it is very important.

I watched with interest the things you have been saying on the cross-border shopping issue in your bulletins. I am wondering if you can say a little more. I was surprised you have not put anything specifically in your brief because I know that issue is very important to you as well. For the record, I wonder if you would say a little bit about that, because what people think about that issue is important in budget planning.

Mr George: We did not include it in this presentation. I think we will when we meet with the Treasurer in a couple of weeks for his pre-budget consultations. Clearly the federal government is playing a lead role in this.

I am from northern Ontario. I know my colleagues there tell me that fully 25% of the dairy product in their area is coming across the border. That has a significant dollar effect on the average milk producer in northern Ontario. I do not have all the answers. I do not know anybody who has the answers. I guess if we had the answers, we would have them out there.

Mr Sulliman: The short answer, Ms O'Neill, is it would be just great for the economy and for jobs if the Ministry of Transportation were to close all the lanes to the border crossings for road repair, put people to work and just cut down the people going across the border. That is a very simple solution, is it not? A winter works program here in Canada. But it is a federal responsibility primarily.

I know the Premier is on record, as are most members of this House. When we come and submit these briefs, we try to hit those things that are most pressing on our agenda. That does not mean cross-border shopping is less important. It is like the GATT: It is not really written in here today, but it is an issue. OTAB has a tremendous impact on

the rural sector, the rural economy and farming as an agricultural workplace. They are all pressing issues.

Mrs Y. O'Neill: I just wondered if you felt there was anything directly related to the tax issues in your industry that would be a policy area we should look at in the development of this budget.

Mr Sulliman: I cannot give you a straight answer today. I suspect there is, but the short answer is, again, that I was being only half-facetious when I suggested a winter works program on all the roads to border crossings.

Mr George: Presumably, if there were no GST and no provincial sales tax, there would be that much more incentive for people to stay on this side of the border too.

Mrs Y. O'Neill: Have you taken a position on the harmonization issue?

Mr George: No, we have not.

Mrs Y. O'Neill: Mr Phillips, I do not know whether you want to finish our time.

Mr Phillips: Yes. We have heard a lot about the industry leaving Ontario and some feeling that some of the policies of the new government are contributing to that. One of the industries that, I gather, may be leaving the fastest is the food processing business. I am wondering—I did not see any comment in your brief on that—whether you have any advice for us in terms of the food processing business and how we might slow down what looks to be a bit of a move.

Mr George: There are several issues there. First, I think there is a myth out there that one of the reasons the food processing businesses leave Ontario is because the cost of the raw materials from the farm are higher over here. That is a very small part of the issue. One reason they are going to move over there pretty quickly is related back again to the issue of these trade deals. If we start to lose the ability to produce some of this product domestically, then there is absolutely no point in saying, "We'll bring this stuff in from south of the border and process it here." The factories are going to move to where the product is. That makes me very nervous.

When we stop and think that there is only 4 cents' worth of wheat in a loaf of bread and 14 cents' worth of corn in a box of corn flakes that costs \$4, I do not think we can say it is the cost of the raw products that is the problem; it is all these other things. It is the cost of labour. It is the cost of local and provincial taxes. I do not know. Because of all that tax regime, it seems to me that the cost of doing business in Canada is that much more.

We all know there is a price to pay for living in Canada too. We have climate. It costs us more to insulate our buildings. But there again, our regulations bother me. It seems to be a bit of a dichotomy with this government that we keep on putting in new regulations, and with every regulation there becomes a cost of compliance and a cost of enforcement. That just makes the price of doing business that much higher. It seems to me that regulations which were put in for presumably good reason have the opposite effect of driving business south of the border.

It is a very worrisome problem. Again, we do not have the answers, but it is one I think this country has to come to grips with right off the bat. I suggest that Canada's ability to be competitive and have that competitive environment where businesses will be attracted to is far more important than any constitutional debate, far more important.

Mr Phillips: I just thought I would raise it. I just—

The Chair: Excuse me, we have to carry on.

Mr B. Murdoch: I have two or three questions. First, you mentioned the rally on the 21st. The last I heard, if negotiations go fine—some 300 leaders are going to meet with the government—that rally may not be on. Are you saying it is on, regardless?

Mr George: That rally is on, regardless. In my mind, it cannot be called off. The only possible thing the Prime Minister could say that would call that rally off would be if he could come and say: "I've got a signed declaration here by George Bush and Delors from the European Community that article XI is now safe. We've gotten it clarified. Here's the document." It would take that from the Prime Minister to stop it, and I do not think the Prime Minister can deliver on that. The Prime Minister is not going to turn around and say no either. The Prime Minister is probably going to say, "Be patient guys, we're working on it." That is not going to be good enough for the farm community. So the rally is on.

1630

Mr B. Murdoch: I just wanted to make that clear, because we had heard other things.

On rural development, you have mentioned here that maybe OMAF should take the lead. I am wondering where the Ministry of Municipal Affairs comes in, because right now we have a problem in rural development within rural Ontario. OMAF actually is causing more trouble than it is helping and Municipal Affairs, I think, maybe should be taking the lead, with OMAF being part of it. But if OMAF starts taking the lead on rural development, then we may have a problem.

Mr George: I certainly hope we would not have a problem. We want to get the job done. It seems to me that OMAF would be the natural one to take the lead. I assume they would have the competence to do that.

Mr B. Murdoch: I just want to suggest that Municipal Affairs may be the better one to take the lead on that and work with the Minister of Agriculture and Food. A lot of the planning issues are under the Planning Act, which is under Municipal Affairs, and right now a lot of the problems are being caused by the Minister of Agriculture and Food.

Mr George: I guess what we are looking for is a cabinet committee. It is obviously a multiministry business. We are suggesting OMAF be the lead ministry. I will leave it at that.

Mr B. Murdoch: Maybe they can kickstart it at least.

I am impressed with your environmental agenda, but I am also concerned that we not lose our focus. Up until this agenda came out, our focus with your group was that the

prices for our agricultural products in the last while—I have watched it on television and it is in the shows. You are excited about this, which you should be, but I do not want us to lose our focus that there will not be any farmers to implement this if the same trend that is going on today keeps going on. This sure is fine, but boy, if we do not do something for the prices, and the prices are not mentioned in this, I am really concerned that we are going to get away from it and get into environmental issues and forget about the farmers.

Mr George: There is very clearly an economic linkage with environmental responsibility. The two things go hand in hand, in my judgement. Quite frankly, it is just like your business. At any point in time we have a whole bunch of issues in the air. With the environment and GATT and the whole pricing thing, it just so happens there are three of them.

While we are excited about this, we are no less excited about prices or any less excited about GATT, but just as affairs of state have to be done on many fronts, so does this one. Let's get started on this one, because the environment is going to be around for many more years to come and it is going to be an issue for us to keep on working at. I am excited that we have gotten it started. We are certainly not putting all our energy into it, but it is going to be an ongoing watching brief.

Mr B. Murdoch: This is part of my issue, because I still farm. If I have to start being concerned more about the environment than getting my prices for my products, then I will not be around to fill this out. I think we just do not want to lose where we are going.

I know you mentioned maybe an incentive from the government that farmers be paid \$250 to fill this out. Do we have any criteria of what a "farmer" is going to be? Are we going to say that maybe they should belong to the OFA before they can tap into that? How would we control that?

Mr George: No, we are looking to get 40,000 commercial farmers. There are no strings attached to what farm organization. We are saying that as long as they are commercial or quasi-commercial farmers, they should be filling in an environmental farm plan. There is no cross-compliance between existing financial programs, but we are saying that for future environmental programs it would be necessary for a farmer to deliver a completed farm environmental plan in order to access any grant programs that might be there in the future.

Mr B. Murdoch: Just one—

The Chair: No, no more questions. I will go on to Mr Drainville. I believe that when this came out, it was not there. Was it, "Educate, don't legislate"?

Mr George: Yes.

Mr Drainville: Thank you very much for the very full brief you presented to us and also your manual on the environmental agenda. I have a couple of questions. First I want to affirm a couple of things. One is, as far as my understanding in talking with the minister is concerned, our continued support of your position vis-à-vis the GATT. I have made strong representation on behalf of the federation to the minister from the farmers who live in my own

area and I have been lobbied quite extensively by them. I must say that I have felt very—

Mrs Y. O'Neill: Not on the weekends.

Mr Drainville: Not on the weekends, no, but I was on a dairy farm just recently with members of the federation.

I want to also recognize that the points you are making about ethanol are very important. I think you need to stress that to the government. I myself have been trying to stress that. I have a resolution that is on the Orders and Notices paper—at least it was before we prorogued; I am afraid it has probably gone the way of the dinosaur now and I will have to reintroduce it—in support of the ethanol issue.

I am going to pose a difficult question to you, though, around the taxes. I mean this within the context of respect for your position and what you are trying to say. You draw attention to the area around the commodity taxes and also as regards the property tax. I too want to see the farmers continue with the property tax program that is there and set up. I want that to continue and I will be supporting the minister in trying to make sure the government continues that. But in terms of the commodity taxes on wine and tobacco, I certainly hear the concerns you have in that area.

I also am even willing to acknowledge that with governments in the past it has been rather easy to slap taxes on. There is no party around these tables that has not done it at this point in time, so we are all guilty of this particular proclivity, but what I would like to know is, what taxes should we increase?

Each group that comes before this and other committees of the Legislature is indeed very explicit about those areas that would impinge upon it, but we in government find ourselves in a dilemma right now, with the present financial situation being what it is. Trying to understand your position, are there taxes that you feel that can be increased fairly? Obviously these two should not be, and I hear you on that, but are there taxes that should be increased fairly? Should taxes not be increased?

I also see in your document that you are also recommending continued funding from the government in other areas, for programs that are important. I do not doubt their importance at all. What I am trying to do is solicit a little help for the government. If you have some help on how we can try to arrange the present fiscal difficulties we are in, I am all ears. We need that kind of input.

Mr George: I am not going to stand here today and tell you what taxes I think you should increase, because I do not believe the Ontario or Canadian taxpayer is in any mood for tax increases. We are all looking to our legislators to take one hard look at expenditures. I think we can all see examples in our backyards of things where you think, "That seems to be a waste of money." I think we should take a good, hard look at that, as painful as it may be for those people who try to defend those programs.

It gets back, in my mind, to find ways of generating economic activity. When we look at the heyday in the late 1980s, when this province was booming, and the hundreds of millions of dollars of taxes—income taxes, sales taxes and whatever—that were generated through that economic

activity, surely to God that has to be the way to go. We are not in the business of taxing the nation to death to pay for government activities, nor are we in the business of shutting the nation down by curtailing all the programs.

Surely to goodness we can creatively find ways to stimulate this economy. From my sector we are saying, "Give agriculture a chance and we can create some economic activity in our sector." We know we have this spin-off effect in agriculture. When farmers have money they spend it and that money soon gets recycled through the system. I think we have to be taking that type of approach rather than saying, "Well, we've got to put up taxes here or else we'll totally eliminate these things."

Carl or Cecil, I do not know if you have anything to say on that.

1640

Mr Sulliman: The only thing I would add to what Mr George has said in response to Mr Drainville's question is that the way in which you have targeted certain agricultural producers because society somehow finds their processed product a social pariah has been quite inappropriate.

If tobacco is deemed to be an inappropriate product for the marketplace, then say so, and for heaven's sake buy out the quota for these producers and allow them to get on with their lives. Do not slowly twist the noose around these farm families' necks because you do not like their product. The same goes for the grape growers in Ontario. If you do not like their product and if you think that socially it is unacceptable and therefore is subject to a "sin tax," then call it such. Tell them to get out, pay them honourably, as you would in any corporate cannibalism where you take an industry over, pay them off at a fair price and move on.

When it comes to property tax rebate for the farmers of Ontario, I want you to be very clear about the fact that it is not a personal taxation issue. It is a real property taxation issue. It is taxation on property. It is inappropriate taxation of productive farm assets—land and buildings. We cannot prejudice the outcome of that, other than to say that it has been long established through the Progressive Conservative government, the Liberal government, and now the New Democratic government that it is an unfair tax burden on productive farm assets. The only stopgap remedy we have had is the property tax rebate program. Therefore, please leave it in place intact until the government's Fair Tax Commission comes back with a course of action that is fair and equitable and just to these people, period.

The Chair: I would like to thank you gentlemen for coming before the standing committee on finance and economic affairs. I know we had some more questions and maybe, Mr Jamison, later on you could see Mr George outside. Thank you for coming.

Mr Sulliman: See you on the bus in Ottawa.

Mr Drainville: By the way, I'm going.

Mr Sulliman: So is the Minister of Agriculture and Food.

The Chair: Thank you for appearing before this committee.

SOCIAL PLANNING COUNCIL
OF METROPOLITAN TORONTO

The Chair: The next group we have coming before the committee is the Social Planning Council of Metropolitan Toronto. Would you come forward, please. With the names I have here, I am not going to say, "Welcome, Peter and Andy," so would you please identify yourselves for the purposes of Hansard. I would like to welcome you for appearing before this committee. We have 40 minutes and in that time you make your presentation. At the end the three parties will be divided equally to ask questions. You may begin.

Ms Roycroft: My name is Marilyn Roycroft. I am the vice-president of the board of the Social Planning Council of Metropolitan Toronto. With me today is Andy Mitchell, who is the program director. We are very pleased to have this opportunity to present before this committee.

We understand and appreciate the difficult issues facing the province of Ontario as it prepares its 1992 provincial budget.

Just a little background on the council: The Social Planning Council of Metropolitan Toronto is a 50-year-old organization, independent, voluntary and made up of a 36-member board of directors representing a wide variety of community interests. The council is funded principally by the United Way and by a grant from the municipality of Metropolitan Toronto. We are mandated to undertake social research, policy analysis, public education and advocacy, and, along with many others and in collaboration with them, we try to develop innovative service development.

Our principal concern is for social policy. We are committed to the view that social and economic goals are wedded fundamentally and completely. Economic policy must be set in the context of its social consequences. The tools of economic policy, such as spending and taxation, should be seen not merely as tools of economic management but also as a means to achieve social goals. That same relationship operates in reverse and the pursuit of social policy objectives will enhance and reinforce the achievement of economic goals.

Our approach to the Ontario budget is consequently based on viewing economic policy, as expressed through the budget, as a way of achieving economic goals, but also as a means of ensuring that all of Ontario's residents live in dignity and share in the wealth of this province.

The province has signalled that restraint will be a component of this year's budget. We are all aware of the transfer payments, announced in January, of 5% in the next three years. We are all aware that this also will not keep pace with projected inflation. The 2% increase in social assistance payments already announced for 1992 will not keep up with inflation, which is forecast at 2.3% this year, and will do nothing to address the fundamental inadequacy of benefits.

It is most important for the province, as it addresses the most serious challenge that any Ontario government has faced since the Depression, that this government not abandon its commitment to partnerships, equity, social justice and the protection of the very vulnerable in our society.

I would like to take just a minute or two to set the context in which some of our recommendations are made. Andy will then outline some of the specific options we see for this government and for this province in the next few months.

In our last submission on the Ontario budget the council emphasized the integration of social and economic development. Some views—narrow, we would say—of the role of the state, characterize state intervention as inhibiting private initiative and crowding out private-sector investment. More modern views, in our point of view, recognize that the state can guide social and economic development in a positive manner.

For example, through enhanced skill training and infrastructure investment, Ontario could be better able to retain an industrial base. Welfare state expenditures can be used as a tool to shape more desirable labour market outcomes through the creation of high-quality service-sector jobs and the provision of adequate income security to help Ontarians who are undergoing this transition in this period of economic restructuring.

The most successful and productive economies in the world operate according to such thinking, in our view. The least successful ones look at the short-term view. So, again, it is our submission that we should stress the importance of protecting and enhancing the social infrastructure as an integral part of a strategy for achieving economic goals of productivity and competitiveness.

The ideas of social justice, which I have already mentioned, and of equity and of partnerships are ones that enhance and reinforce productivity and competitiveness. Competition in the global economy today requires significant investment in social and physical infrastructure. Neglect of either will not help in the long run and in fact will lead to a deterioration in our ability to respond.

Most analyses of the globalization of the economy emphasize the importance of productivity and the ability of any economy to adapt to changing circumstances. A recent report from Investment Canada, which we refer to in our brief in greater detail, stresses the factors of education and training and their importance in influencing productivity. It also stresses the maintenance of a first-class transportation system, water and sewage system, communications, and other forms of public infrastructure. Indeed, in a 1991 budget paper the province identified a number of the ways of influencing the ability to compete, including skills and adaptability of the workforce, management skills, and technological advancement and innovation.

We believe that a narrow vision of competitiveness and the role of the state is not the way to go. It seems clear that a policy of eroding social infrastructure and not investing in physical infrastructure will impede our ability to compete in the long run. We want to increase the province's flexibility, not decrease it.

1650

Finally, it is important when looking at this challenge to understand that Ontario's revenues and expenditures are not high in relation to the gross domestic product of other provinces. After growing substantially in the 1960s, provincial expenditures have now stabilized at 15% to 16% of

provincial gross domestic product. There have been expected upward movements due to economic recession, but revenues have not grown to the same extent to keep pace with these expenditures. This is a key problem and it is exaggerated and amplified by the downloading from the federal government to the provinces. I am not going to go into that in detail—I am sure many others have before you—but we hope the province would not further download to the municipalities, which must depend on a narrow and regressive property tax base.

Now I will turn over to Andy Mitchell, who will outline some specific options.

Mr Mitchell: It has been our practice in the past in making submissions to give quite a bit of detail on different programs where we would see the requirement for enhancement. But the province has signalled, at least this time around, that it really wants to hear suggestions about taxation—less about where to spend the money and more about where to find it. So for that reason I turn my attention to some of the options.

We observed that personal income taxes and retail sales taxes, which are two of the larger tax sources for the province, have increased in relation to provincial gross domestic product in response to the increased responsibility of the province to fund social programs. We also observe at the same time that the taxation of corporations has not similarly increased.

As Marilyn mentioned earlier, Canada and Ontario are not high tax jurisdictions in comparison to neighbouring jurisdictions or internationally for that matter. I think you will find a quotation from a study by Neil Brooks in our submission which shows that by most international comparisons we are not a high-tax jurisdiction. Therefore, we believe that the province has some flexibility to meet the current crisis without jeopardizing a recovering economy, at the same time as offering protection to the most vulnerable in society and maintaining our vital programs.

For example, there are at least two and probably many more options for redesigning the provincial sales tax. For example, and this is strictly hypothetical, the province could reduce the rate to around 4% and raise a corresponding amount of money by raising provincial income taxes, by increasing the rate of tax on basic federal tax. Alternatively, the province could lower the sales tax rate by 2%, for example, and raise income taxes by an amount sufficient to offset the revenue loss at the same time as it enriched the Ontario tax-reduction program for lower-income people.

Without going into very much more detail about that, the benefits we would see from those kinds of changes would be to leave more money in the hands of lower-income people. Lower-income people have a higher propensity to consume. They have to consume almost all their income just to live and therefore it would be our expectation that you would see an economic stimulus out of changing the tax structure in that way. It is entirely possible that such changes might stem cross-border shopping as well, with additional benefits. I will leave that one alone for now. You might want to ask some questions about that.

There is a historical precedent for a program like that. I do not know all the details, but I believe in 1978 there was a temporary reduction in the Ontario provincial retail sales tax, again for the express purpose of economic stimulation.

Another example would be a 1% increase in capital taxes that would yield about \$1.4 billion, according to provincial estimates from the Ontario Fiscal Outlook. My reading of the document suggested that would still leave our capital tax rate at or below every jurisdiction in Canada, with the sole exception of Quebec. Similarly, a 1% increase in the employer health tax would yield approximately \$1.5 billion, again leaving the level of taxation competitive with our principal trading partners and other jurisdictions.

We observed previously that corporate taxation has not increased to reflect the increased provincial responsibility to fund vital social programs in the same way retail sales taxes and personal income taxes have. It would be our submission that these forms of taxation reflect our common interest in and responsibility for maintaining a healthy, just and equitable society. Avenues for increasing corporate taxes should be explored. Different routes would include increased rates, cutting down on tax expenditures, or possibly one of the options for a corporate minimum tax being explored by the Fair Tax Commission at this time.

This is not to say that we necessarily would endorse the downloading of responsibility to the provinces for funding social programs, it is just the reality of the current context. A different form of federalism might be something desirable, but that is not what is at issue with us today.

Again, without specifically endorsing any particular set of solutions, we note that the province has significantly more flexibility than it might first appear in the area of debt. The level of provincial debt, while an area of concern in terms of our future ability to fund programs, is not high and is not yet a problem of critical magnitude.

The province perhaps should explore borrowing options from some of its historical sources of funds. I noticed, poring over the public accounts, that historically the largest sources of funds for the provinces have been Canada pension and teacher pension funds, OMERS, the Ontario municipal employees retirement system fund; there are three or four. At the same time last year, though, the province was relying on public bond markets for the lion's share of its debt. Although I understand there are some legislative reasons why the province does not currently borrow from its historical sources, it would be our submission that it should explore those avenues again. It only seems logical, if you are going to borrow, to borrow from domestic sources to the greatest extent possible, because then at least the interest you pay is income received in Ontario.

We have short comments in the area of capital spending. We would encourage the province to extend the offer made by the Premier to the federal government to fund capital spending on a dollar-for-dollar basis to further extend that to the municipalities as well.

I will leave it there so we can have the greatest opportunity for questions about some of the specifics we have raised. Sorry, I will make one more comment. That is to do with the budget consultation process itself. The province made a commitment to a more open and democratic budget

consultation process. Some of the characteristics of this year's round we would very enthusiastically endorse. For example, the release of information through the economic projections in the Ontario Fiscal Outlook really helped us to view the situation with the same kinds of information the Treasurer is looking at, so we could not support that any more. That was very helpful.

At the same time, limiting the number of groups that come before this committee to make submissions has caused a number of groups out in the community to not have the same kind of access to the budget process that they have enjoyed in the past. I would make similar comments about the Treasurer's plans to cancel his one-on-one consultation meetings and substitute the round table discussions on a number of selected issues. Again, limiting it to a number of pre-selected groups has cut off an avenue of access that a lot of groups had previously enjoyed. That is where I will close it.

The Chair: Thank you. Mr Murdoch, you have a question?

Mr B. Murdoch: The only one I have right now—and maybe I will have more when you go around the table; there may be some more time—is, did I hear you correctly that you felt maybe we should be putting higher taxes on people who are making more money, or a corporate tax? We have been here all day, and we have just heard from many of the corporations anyway that they are already taxed too much. I have been in many meetings where they feel that if they are taxed any more there will be a tax revolution, and then if there is, unfortunately there are going to be payments that are defaulted and we are going to be in a heck of a mess here because they are not going to receive any revenues. Is this what you are saying we should be doing?

1700

Mr Mitchell: All I have that I can work with, since I do not know a lot of corporate people, is the evidence, which to me suggests that by most comparisons, Ontario is not a high-tax jurisdiction. I imagine that if you asked anyone on the street or any individual corporation you selected, they are going to feel like they pay too much tax. I just have trouble finding the evidence to support it.

Mr B. Murdoch: And we do not have it here, but there certainly is. But I think the corporations are saying that the atmosphere in Ontario right now is poor for them to invest and that is why they are leaving. If at this time we put on a higher tax, I think it will even be worse. I am not saying they will, but they were here and that is what they are telling us anyway. I think this would be a dangerous time to start incorporating more taxes.

Mr Mitchell: I do not pretend to know everything, but I would say that taxation decisions are probably only one out of a myriad of factors in corporate location decisions. A friend of mine, when I made the same argument, playing devil's advocate to him, said that if corporate taxes were the sole criterion for location, then Cape Breton would be the industrial heartland of Canada, which stopped me dead in my tracks.

I would say that I am not interested in seeing the corporate sector taxed out of existence. I am talking about taxing profitable activities. I would say that you can always design a program such that corporations, business activities, that are fragile can be dealt with in a sensitive way, because I am not interested in taxing things out of existence either.

Mr B. Murdoch: I can understand that when times are good, but with everything that is happening, and as I say, the atmosphere is not good now, one more thing—as they say, the straw that broke that camel's back—that could be it and we would be in serious trouble in Ontario if they start going after more corporate tax.

Ms Roycroft: May I just respond for a moment? The other issue I think is really looking at the reality of the existing corporate taxes in relation to the rest of the country. I echo what Andy is saying. There is lots of fearmongering being done by various groups in this province now. I do not believe that is helpful, and that is certainly not the basis on which we are coming. I think a far more healthy, respectful approach is to treat it as seriously as the rest of the groups that will be taxed are going to treat it, and that is to come with a much more reasonable approach than, "We simply can't do it," which is the approach I hear from a number of corporations also.

It is up to the province to make those tough decisions, based on the information you have in front of you. That information points to certain things in our eyes, and that is all we can say.

Mr B. Murdoch: I really do not think it is fearmongering, I think it is just to bring in reality to us so you can take whichever one you want to use. That is all.

Mr Drainville: It is a pleasure to have you come before the committee today. I should say that I was a member of the board of the social planning council for a period of time in the middle of the 1980s, so I am quite familiar with much of the work you have done.

I want to say how you have put forward your position, which is quite different from most of the positions that have been brought before this committee—I must say that because of my background I tend to favour much of your analysis. It is analysis that bespeaks a certain view of the social integrity of our country and believes that somehow we need to see taxation and the economic situation as being a handmaid, if you will, of our society and not try to have an economy that is based upon fear, which I believe is what is presently being put forth by some economists and some people.

We have heard that we are taxed out of all proportion, and we also hear a lot of complaints about the government and the role of government in society. What you are putting forward here is asking government to continue its support of social programs and the social service network, and the means by which we are to do that, of course, is by ensuring that we use our taxation dollars wisely, and you have given some indication about how we can do that.

Part of our concern as we as a government try to deal with this very serious economic situation is to decide, in terms of taxation, whether we are undertaxed, according to your report, or overtaxed, according to other reports. I

think the reality out there is that people do not want us to raise taxes. I do not think there is any question about that, so our government finds itself in a very difficult situation and position, being unable to manoeuvre itself and so provide the services we believe are important.

The question I would ask you is, quite apart from the taxation issue and the issue about a cutting of programs, what role do you think the government should be taking if we are going to continue to prosper? I am asking for you to go beyond the social contract, but to look at what role the government should be having if we are going to continue to generate the economy.

I turned this around on the federation of agriculture at the last presentation they made. They were very particular about the things we should not tax, and they were also asking us for significant amounts of money. I found that very hard for us to hear, because on one hand they are saying, "Don't tax," but they are saying, "Don't cut programs; in fact increase the amount of money you're giving us."

What I am saying to you on the same score is that I, as one who believes in the social service system in Ontario and in Canada, want to see that continue, but to make that continue, prosperity has got to be a goal we achieve. To achieve prosperity, what are the directions in which this government can go and what are the means by which we can engender prosperity so we can continue to have the social services we need in Ontario?

Mr Mitchell: You have asked a large question, so we will have to share the answer.

I think the key thing the way I look at this is in analysing how Ontario will be productive and competitive in the future. This is where I start to see the vital links back to the social sector. I think fundamentally the government can contribute to the productivity and hence the competitiveness of this economy by ensuring the strength of our infrastructure, by ensuring high levels of education and retention in post-secondary education, by ensuring the health of its citizens and by ensuring that there is a high level of training. I might add, although it is not the purview of this government to ensure the strength of unemployment insurance, it is programs like that that ensure that the labour market will have enough security and feel secure enough to become a flexible labour market rather than engage in defensive protecting of positions. I think that is the fundamental key to how a government can ensure that it remains competitive and productive. That is my short answer.

Mr White: I very much appreciate your suggestion of the change from a regressive form of tax, the RST, to the progressive income tax base and your analysis of the actual numbers involved, which are striking, to put it mildly, of course.

Like Mr Drainville, I have also been involved with social planning councils, although I have not lived in Toronto for the most part of my life.

Your emphasis is primarily upon social services and that kind of support network, yet in other communities, in other jurisdictions with a social democratic government,

the emphasis is upon a social contract and a solidarity where it is a full employment and a full participation. The residual welfare is still there for those who are disabled, who are unable to participate, but as a much smaller proportion of the community. In Dr Mishra's book, which I recently read, he speaks very strongly of that social contract and how effective it has been in other communities. I wonder why your community here is emphasizing "social service network" and the residual benefits.

Ms Roycroft: I will start and Andy can jump in. That is what we do, if I can put it that way. We started off as a neighbourhood workers' organization 50 years ago, and the social planning council has evolved since them to look much more at the relationship between economic development and social welfare policies. Our focus comes at it from a different angle, unless I misunderstand what you are asking. I suppose the other way of viewing it, something that Mr Drainville just said, is that one has different definitions of prosperity.

The other major work the council has done this year is a report called *Unequal Futures*, which is an analysis of child poverty across this country. It is tough-decision time about where you trim the costs, where you put the money and where you raise the money. I guess our emphasis and our work tend to be on one side of it. We see the tremendous need on that side so it is not easy for us in any way to de-emphasize that, I guess is what I am saying.

1710

Mr Mitchell: I will add one thing, if I could. If I got the nub of your question, we historically have supported the notion of full employment in the economy, but I guess I am tailoring my message to the audience. I do not imagine the Ontario government can be charged with the responsibility of creating full employment in Ontario. I will be talking more about that at the end of this month when the Treasurer brings down his budget.

Mr Sutherland: Just one quick comment about the process going on here. You are quite right that this committee is not able to meet with as many groups as it has in the past, but I do want to make it clear that any written submission from organizations you are in contact with that want to send them in to this committee we would be more than happy to have.

Mr Mitchell: I will pass that message on.

Mrs Y. O'Neill: Without any prejudice to Andy, it is very nice to see Marilyn because in the entire day you are the only woman who has presented on behalf of any group. Having just been part of electing a woman as my leader I find that regrettable, because I do think women should and can be very directly involved in economic issues.

I want to ask you a couple of questions. Are you on any of the working groups in the tax commissions.

Ms Roycroft: Yes, we are.

Mr Mitchell: I serve on the working group on low-income relief.

Mrs Y. O'Neill: You know the transfer payments now. You have had the news: 2%. I thought you might mention a bit about that, but I understand you explained why you

chose the brief you did. You said a moment ago that it is a time for tough decisions. Would you tell us a little about what the 2% means to you, what kind of process you are into now regarding your decision-making?

Ms Roycroft: In terms of the 2% transfer payments to—

Mrs Y. O'Neill: The agencies you work with. Can you tell us a little about the effect of that?

Mr Mitchell: This will have to be kind of anecdotal, since I have not really turned my mind to it.

Mrs Y. O'Neill: That might be very helpful.

Mr Mitchell: You are hearing stories about cutbacks, closures, in different agencies that are in receipt of provincial funds. A couple of groups I have worked with are seriously scaling down their projected operations for the year.

Mrs Y. O'Neill: I know in the community I come from, Ottawa, there seems to be a real concern particularly about the drug rehabilitation area. I wonder if you and people like yourselves, umbrella groups, are having to make choices between different kinds of needs. How is this being done? You must be into it pretty heavily.

Mr Mitchell: I will restrict myself to a short comment about the difficulties facing Metro Toronto in its budgeting.

Mrs Y. O'Neill: Yes, I heard some of it on the news.

Mr Mitchell: When you are starting to talk about cutting medical aid to social assistance recipients, which is the kind of difficult choice they have put in front of themselves, then I would call that a fairly serious crisis for them.

Mrs Y. O'Neill: Are you being helpful in that? Are you being called upon to help prioritize at such a critical time?

Mr Mitchell: We have been part of a group that has been talking to Metro at meeting after meeting, encouraging it to look at every possible option to avoid the kinds of scenarios they are painting for their budget for this year.

Mrs Y. O'Neill: I am quite happy with what has happened in Ottawa in such a tight circumstance. I do not know whether you are familiar with that, but I think it was over \$300,000 that was reinstated in the social services area as the budget discussions progressed. I have a feeling it was the chairman of that committee who had a lot to do with that, but that is personal.

I just want to ask you one more question. We had the Ontario Prevention Clearinghouse here this morning. They decided to devote almost half their brief to the opportunity planning project that was part of the SARC Transitions document. I wonder if there is anything like that happening in Metro that you know of. Has that taken off at all? Do you feel it is something that should be pursued by this government?

Mr Mitchell: We have appeared before the government on numerous occasions over past years endorsing the moves towards social assistance reform. For example, as I said earlier, we have not gone into details with this brief, since I think our views on that are known.

All our past briefs are available, if you are looking for input on how to reform social assistance or how to enhance housing programs, how to do labour-market training. We have years' and years' worth of briefs to do that.

Mrs Y. O'Neill: Are you still as convinced, I guess is what I want to ask you, about the opportunity planning project or are there any pilot projects in the Metro area where people are trying this out?

Mr Mitchell: I do not think I have any details for you.

Ms Roycroft: Sorry we just do not, Yvonne, but we can get it for you. If the executive director, Peter Clutterbuck, had been able to be here he would have some background.

Mrs Y. O'Neill: I am still getting good vibes and updates on the supports to employment program, but it is certainly not nearly as broadly based as I would like it to be. I know opportunity planning is very closely tied to STEP. I just wonder if you had anything for this committee, because I think there will have to be very difficult decisions made on retraining and the re-establishment of self-worth through a project like that. That may be one of the choices that would be helpful to us if we thought that was where you felt the focus should be.

Mr Mitchell: All the reports I am getting about STEP indicate very positive results in terms of the number of people who are getting into the labour market and reducing their dependence on social assistance through STEP. The simplest thing the province could do to improve with that program would be wider publication of it, wider advertising to get more people.

Mrs Y. O'Neill: We have been hearing that for about three years. That is right; I guess our government and perhaps this government now is not listening well enough to that. It does turn people's lives around, especially single mothers.

Ms Roycroft: Can I just add two very brief things? As you are aware, I also spent a fair bit of my life in the education field. Reports from the adult education centres right across the province are that they are flooded, especially in English as a second language. They are turning people away who are in fact eager to be retrained and upgraded. That is one piece of evidence, in the sense that you were looking for what the effect is going to be and what the other demands are going to be out there.

I am also part of a committee looking at the United Way's allocations.

Mrs Y. O'Neill: I did not realize the pressure would come so quickly. I thought it would take them longer to respond, the United Way.

Ms Roycroft: My friend who is doing admissions said the other day that the normal period is a week, and they were completely out of spaces for ESL within three hours. People had lined up at midnight the night before. She could not believe it. That is a very fast response to problems.

The other committee I sit on is a group working with the United Way in trying to deal with the same amount of money and a greater need. There is no question that the 2% passover in terms of transfers is going to have an enormous

impact certainly on the smaller agencies. We as an agency will weather it, but there are other ones that simply will not because of the increased demands. They are just not going to be able to meet it. The United Way would certainly have evidence of that from the work that it has been doing.

Mrs Y. O'Neill: Thank you very much for being so specific with your answers. I am very happy you brought

up continuing education, because that could easily be one of our recommendations.

The Chair: I would like to thank you on behalf of the committee for appearing here. Your brief will be added into our report.

The committee is dismissed until 10 o'clock sharp tomorrow morning.

The committee adjourned at 1722.

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Journal des débats (Hansard)

Le mardi 11 février 1992

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et des affaires économiques**

Consultations prébudgétaires



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Clerk: Todd Decker

Président : Ron Hansen
Greffier : Todd Decker

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LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Tuesday 11 February 1992

The committee met at 1011 in room 230.

PRE-BUDGET CONSULTATIONS

The Chair: The standing committee on finance and economic affairs will resume its pre-budget consultations. Our first witness is from the Daily Bread Food Bank. Mr Kennedy, welcome to the committee.

DAILY BREAD FOOD BANK

Mr Kennedy: It is with a bit of reluctance that I appear before the committee. The food bank has no connection with any financial institution or expertise in the macro matters we have heard so much about. The context in which you will be advising the minister on the budget is, from every news report, well set: You have no money to spend, and there is nothing you can do about the circumstances we see on a day-to-day basis. We need to learn from the government at the earliest date whether that is true.

What makes it worthwhile for me to come down from the activities our organization takes part in is that sense of possibility out there. I would like to share some of that, as well as some of the reasons to substantiate an emphasis that should take place in this budget, an emphasis that should include or aim at the people who are partly reflected in the numbers of food bank organizations across the province.

There is more hunger in Toronto and Ontario than at any time in the last 20 years. In December there were 151,000 people attending food banks. From a survey in October last year, I would like to share with you some aspects of who those people are. The people who were coming to food banks in 1987 had an average education where only 13% had graduated from high school. In October 1991, 43% had graduated from high school, 10% were graduates of university or college and a full 20% had college or university experience.

There has been a dramatic shift in terms of who is marginalized in this province. The people who are turning to food banks are unfortunately now a majority of families with children, about 64%. Children are perhaps the most prominent group. Of people attending food banks, 44% are children under the age of 18. They are only 26% of the population and they are only 27% of the low-income population.

There is a risk group that developed so fast and so quickly after the recession that it really brings into question the whole effect of what government has been doing in response to the recession, since the figure of 151,000 represents an increase of almost 60,000 persons since the year before. In the intervening 12 months food banks have been trying to respond, and last year we did respond to the best of our ability. We gave out \$25 million worth of food through our 225 programs.

The Daily Bread Food Bank acts as a central food bank. In a way, we are acting more and more like a central watchdog on exactly what is happening. We find people in

states of utter desperation, people whose rapid change from participation in the job force has them psychologically stunned and has them—this is a point I would like to ensure you take away—in a position of deterioration of their life circumstances. This is what we are seeing more and more. People are tremendously confused.

The work experience of people attending food banks shows that we are not dealing with an ever-present marginalized population. The educational backgrounds themselves say that we do not have people here who need a tremendous amount of training, in the sense that they have been in the workforce. They have, in some instances at least, the highest education we can offer. Our economy is not fitting them in, but they are made very strongly to feel that there is a price they have to pay for that and that it is their fault. If you look at a situation I will turn to in a moment, which is the matter of government expenditure in respect of people in dire need, I think you can understand why they would take that view.

The duration of the last paying job varies. The duration of the last job in the workforce for 14% of the people, the heads of households, was for eight years or longer; six to eight years was 6.5%; three to five years, 16%, and one to two years, 26%. Only 12% of the people who attended food banks and picked up food for themselves and their families had never had a job. The combination of being in the job market and educational attainment reinforces the need for some legitimate level of government support to exist.

I think all of you have heard, if not directly then certainly through the media, of issues or alleged issues such as welfare abuse and of that tremendous amount of money that is going to be very tempting for legislatures and for people responding to some aspects of the population to trim and contain. There is something in the order of \$6 billion that will be spent in the direction of social assistance, which is the only thing these people generally have to rely on. Unfortunately in the last six months we have gone from 18% of people who are working in February of last year to only 11% in October. People do not have access to earning income. They are finding themselves in the strangest situation imaginable, because those 61,000 people are added on top of those coming to the food banks, and that underscores the newness of the situation for people.

Out of the 151,000 people, over 90,000 are new. In other words, the last 12 months has been the first time these Ontario residents have had to turn to food banks. When they have turned to food banks they have found more often than not that those food banks are not available or that they do not have the food. There are members around this committee table who have heard some of the food bank travails before, but in the context of your responsibility as members of this present government and of the previous government, there has not been adequate provision.

There has not even been adequate, and what many people would see as honest, energy put towards dealing with the outcropping of the recession. We do not have just the recession to deal with; we have the hangover from the boom times and how well or how not well we made provisions for the future following those times. It is that double effect that the people who are coming to food banks are finding themselves in.

Their situations are evenly divided between those who are preparing for work; about 14% are taking some kind of training or some type of education. What their prospects can be is doubtful, when they have to turn to food banks all across the city because their individual neighbourhood food bank may be able to help them for three days once a month. There are 22% looking for work. Faced by the minute types of assistance that they are getting, they are also not going to be in an enabling position. We still have 10% and 11% who are working, but we have a second group that is about half, a group we are sad to report has already increased somewhat, we think due to the cutbacks that have been allowed to take place at Metro. The disabled have gone up in the last six months, from 13% to 18% of the people going to food banks. These are people in circumstantial disadvantages because of a physical or mental illness, temporary or long term, and they are finding themselves similarly left out almost beyond the margins. Keeping house or looking after children is 22%. Retired is 5%, which is also a 1.5% increase, several thousands more people who have found it necessary to come to food banks.

The punch line is the fact that hunger exists, that 80% of these people report they go without food involuntarily—that is hunger—and 90% of the people say there are foods they cannot buy because they cannot afford them—that is hunger. Previous surveys have said that as many as 60% have gone without food for a day or more. They do so for very understandable reasons. You do not give them enough money. You do not. All of you have heard, and I know many members here have been part of the various efforts, the SARC reform, Back on Track.

The reality for the people out there is that their after-ent situation, after all that work and all that energy, is that they have only 3% more money than they did when that whole effort started. The fact remains that people on social assistance have less money left over after the rent is paid than they did in 1975. That has not changed, and yet the circumstances facing people who are marginalized today, the over one million people in Ontario who are depending on some form of social assistance, is a situation that has immeasurably worsened.

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There is actually a situation today where people are worse off, despite all the apparent feelings to the contrary. Of the average of 13% more income that was put towards assisting people in the circumstances of using social assistance, almost all of that went for rent. Almost all the increase, all the assistance that has been paid for went to help pay landlords. The funny thing is that the landlords are collecting more money than ever before. For four years in a row, that portion of the people for whom the government and this Legislature have responsibility, the ones

coming to the food bank, have less money left over to buy food. After all the kerfuffle, after all the studies, after all the energy, the rates are only up by 3%. The reality is that people's incomes, the money they have to buy food—the first clue, the first obvious reason they might go hungry in a country and a province like this, is that their money is down by 13%. They have less money to deal with a recession that serves up much more difficult circumstances.

The difficult circumstances do not come from the food bank figures. They come from your figures. They come from the figures of the Ontario government and come from the figures of the federal government. Looking at the reports coming out of the Ministry of Community and Social Services, we see that the number of people who are at risk for having to pay more rent than welfare provides has gone up by 50% in the last six months. The government knows this. You know this. Anyone who has that social responsibility better know this. The people who have lost their jobs have been unable to find cheaper accommodation. They cannot fit within what you are providing through the social assistance structure, through the fiscal structure, which has decided not to fully protect them from the decisions of the federal government in respect of the Canada assistance plan reduction.

These people are finding themselves in a doubly difficult situation. For them, welfare reform did not happen. The \$6 billion is not what they are talking about. What they are talking about or what they are experiencing is a single person starting off with what you intend to give him. You intend to give the person \$246. That assumes they could find something they can afford. According to a Canada Mortgage and Housing survey, rents went up in Toronto and most parts of Ontario. They did not go down. When you look, it has actually been harder in the last year to find rents at the rates welfare offers than it was the year before, because so many more people are trying to find cheaper accommodation.

For example, if the rate for that one person for food and everything else is supposed to be \$246, it is not really, because what they have to spend, according to Agriculture Canada's Pricing Guide for December, is \$156 on food, but they do not have that. They have to pay an average of \$90 more just to find accommodation. It leaves them, if they are able to buy their food, with \$8 left over for everything else. There is no way they can sustain themselves on that kind of money. The situation is worse for every category of person on assistance.

The basic situation people are facing is not one that can be remedied by money alone. I have to tell you that in the community out there, many of the churches, the agencies, the social groups and so on are reluctant to get involved, are reluctant to do things, simply because of the uncertainty that has been created at the government level. If you cannot count on something happening with some level of support emanating from the government side, if there is not going to be at least enough money to give people a crack, people are not interested in backfilling a hole created by government.

I am not trying to assign the blame loosely, but when the federal government can make the kind of decision it

makes and when that flows through, as it did when the welfare increases were kept below the rate of inflation, taking away even some of the very marginal gains people have had through all this hullabaloo of the last several years, then it is the government. It should be the government's problem, but it is the people's problem. They are dealing and contending with very small amounts of money. When they go out there and look for accommodation they cannot find it. Sixty per cent of the people have found some accommodation but they cannot find it cheap enough. That rent cost structure is a hangover from the recession.

When you are dealing with the social consideration of the financial implications, it is not the \$6 billion I would like you to concentrate on; it is the \$3.57 more you are giving to a family after five years of welfare reform, and that is if it can find that cheaper apartment; it is the \$2.40 less somebody who is disabled gets on welfare—this is according to the rate structure—than he or she did five years ago; it is the \$7.96 for the single person per month; it is the \$8.05 for two adults and two children. That money is being eroded even as we speak. Inflation is eating it away. Their inability in attempting to find work is eating it away.

There needs to be some focus, some reference within the next budget offering that factors people in and justifies the other expenditures against those tiny sums of money to say we are unable to provide more for people to prevent them from going hungry, even though we recognize they have enough money. Every decision and every scrutiny you make around your priorities and around what you decide to do in context of the deficit and what you decide to do in terms of government taxes has to stand up to that kind of scrutiny.

I would like you to come to our facility—I have invitations here to an open house taking place February 23—to see the food bank in Toronto. Dennis Drainville used to run an operation out of a storefront that was probably 400 square feet. We have 140,000 square feet. We are shipping close to 800,000 pounds, some months one million pounds, of food relief within five minutes of this building. We are doing it because of these numbers. We are doing it mainly because of people who are already on assistance: 74% of the people who are coming to food banks. They are people who are supposed to be the government's responsibility. They are people who are not getting enough money to feed themselves and their families. To compound it, they are getting what looks to be official indifference by way of their special circumstances, the fact that they are the people who are the victims of the recession. This is what people who have worked and paid taxes have to look forward to.

They have to contend with a public context, not a major-city public context but a whining, visceral context coming off the business pages and so on. People on welfare at this time of all times, when it should be understandable that there is job loss and so on, are being victimized and scapegoated as people who are supposed to be presumed guilty until proven innocent. I know your colleagues at the municipal level are affected by that. At the municipal level those disabled people are already worse off, even in anticipation of the cut in benefits that is coming because it could not be negotiated.

There are no simple answers to these kinds of things. There is a very strong need from the street level to see a stronger amount of imagination, a better amount of focus. The numbers have to be thrown around—the dimes and dollars people have to depend on—the context for trying to muster Ontario into making the federal government rescind its decision on CAP, something to change the overall framework these people are dealing with. You are serving up to them a very bleak kind of thing. We are finding people much more confused, much more emotionally deflated than we ever have before from their recent experience and from what they have to look forward to.

I would like to stop there and ask if you have any questions about the food bank situation.

Mr White: I hope you do not feel this government is in any way scapegoating the victims of the recession. I believe that was certainly our target from the outset: fighting that and fighting the effects of it.

I was very struck when you talked about the rent issue. Basically what you are saying is that while upper-level rents in the area of \$800, \$900, \$1,200 or whatever are staying the same, the rents of working people who do not have that kind of money, people on welfare etc, have been increasing during the recession when every other commodity has stayed flat.

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Mr Kennedy: The availability of rents in line with what welfare offers has gone down. What that means is that at the bottom end of the market there is a sense that the rents have gone up. All the rents have gone up. There is only a market available for two-bedroom apartments; one-bedroom apartments have gone up. In the Canada Mortgage and Housing Corp survey they are up 6% across the board, in terms of the accommodations people are living in. The market rents, which as you know are immensely higher, have gone up in most categories as well.

At the bottom end of the market, where welfare forces people to look, there is a 12% chance you will find a \$400 bachelor apartment. That is what the market provides. If you are a disabled person and you need something special that requires a one-bedroom, you have a 2.1% chance of finding it at the rate welfare offers. If you are one adult with two children and are looking for a two-bedroom, you have a 12.5% chance of finding one that is under \$680. Two adults, two children: It is ludicrous for them to even consider finding a three-bedroom apartment, but they have about a 20% chance of being able to afford a two-bedroom apartment for their \$740. All those chances were greater last year.

Mr White: So ironically what we have been doing is subsidizing landlords.

Mr Phillips: I am looking for some solutions and they are not easy to find. I know the Ministry of Community and Social Services budget has gone up quite a bit over the last five years. I think it used to be maybe 10% of the budget; it is almost 20% of the budget now. Yet rather than making progress, we seem to be somehow or other moving back. I do not have the solutions. I wish I did. I think part of it is probably trying to get the economy going so some

of the people you are having to deal with would not have to be dealing with you. I think sometimes we put our money in the wrong places; I do not know. I think we put \$150 million into 10,000 co-op units last year. That is \$150 million, I gather, almost for ever; every year we spend that on the co-ops. Have you any suggestions for us in terms of things you think would make a real difference if we were able to do them over the next 12 months?

Mr Kennedy: Whatever impact can be had on that rent structure in terms of controlling costs. Frankly I do not think that at the marginal end of the scale the government understands enough about the factors that are at work. For example, we have proposed to the Ministry of Community and Social Services to get to some kind of fact-based resolution.

We are going to do a survey in a couple of days. It is going to have 70 questions on it. We know just about everything it is possible to get at, but we cannot find an audience for that. More important, we cannot find a place to focus on the solutions that are appropriate for this community. What is missing from the piece right now is any kind of recession response. If you look at what happened in 1981-82, there were unemployment action centres funded largely by federal make-work funds. Those have not emerged. The social service community is traumatized: the part that is blue chip, that has government funds and so on. The voluntary community does not have a place to focus around. Unemployed people do not even have places to go to maintain a good level of psychological experience in dealing with other people. We are starting to organize things called recession sessions and so on.

I think there should be a very specific fund geared to the recession, geared to bringing across community solutions and geared also to bringing government to the table, and binding in some way, starting to develop at this time some level of community standard for what should happen. Ironically, when we surveyed the people who donate to food banks, 70% said governments should make sure people have enough money to buy food and 65% said they would pay more taxes to make that happen.

Mr Carr: I think Gerry hit the nail on the head. In 1985 when the government came in, it pumped more money into it, and the waiting lists and the number of people on social assistance got longer. It is the same with this government. It came in, pumped more money into it and the waiting list got longer and the number of people on social assistance—

The Chair: Mr Carr, could you speak up? They cannot pick it up on Hansard.

Mr Carr: In terms of a couple of the studies we have, the SARC report and Back on Track, which you mentioned, what are your comments on what you like and what you do not like about them? Also, there will not be enough money to build non-profit housing for the number of people who need it. Do you have any thoughts on what we can do in the housing sector specifically? That is a big factor.

Mr Kennedy: Basically in terms of the housing market I think you have some elasticity out there, so what you

should do is provide some incentive for people to find cheaper housing and let them keep some of the difference. That does not necessarily even cost the government money. You could use the balance of that money to make shelter subsidies available where markets are proving to be less elastic. Those are the kinds of innovations that could come out of a community focus.

There are different structures happening in different communities, but if you do not attack the cost structure—everything that the Liberal government did, and that the NDP government purports to be doing in terms of Back on Track, is still backfilling from a situation created in the early 1980s when there was 11% and 13% inflation. I know there are a lot of good intentions, but we have not progressed. We have not made things better for people and we had better get rid of that illusion. I think there is some sense that we have built up some goodwill, built up some priority. That massive expenditure is people; it is more people who are using up the funds that are available.

In terms of the SARC report, we are at an average of 22% less than what SARC said people should have at stage four, which would be right about now, had it been implemented. That is far enough below that it is almost not a reference point for people. SARC was about moving on several fronts at once: minimum wage, a market basket of goods that actually priced what it cost people, some protection for the rent structure, and creating opportunities. Well, 65% of the people going to the food banks still do not know about the supports to employment program that was the central feature of the SARC report.

It just yells the need for more coordination and cooperation between the government and community groups in making those kinds of things known and available and for some kind of focused energy taking place directly against the human costs that are coming out of the recession. Yet that does not seem to be taking place. Everybody is acting as if, "We'll just hope it'll go away, because we don't have the dollars." Some of it does not take dollars; some of it just takes better focus, and some of it, if it is well-enough explained, may take dollars the taxpayers might support, whether it comes from the deficit side or from the side of paying more taxes.

The Chair: I would like to thank you, Mr Kennedy, for coming before this committee. The clerk told me you are going to have a written brief to hand to all committee members at a later date.

Mr Kennedy: Yes.

CHILDREN'S AID SOCIETY
OF METROPOLITAN TORONTO
ONTARIO ASSOCIATION
OF CHILDREN'S AID SOCIETIES
ONTARIO AND METROPOLITAN TORONTO
FOSTER PARENTS ASSOCIATION

The Chair: Would the next group come forward please, the Children's Aid Society of Metropolitan Toronto. Would you mind taking a seat by the microphones. I would like to welcome you to the standing committee on finance and economic affairs. Before we get started, would you

identify yourselves and your positions for the purposes of Hansard. Then you may begin.

Mr Witterick: I would like to thank you for this opportunity to speak to you. Off the top, I would also like to say we endorse the comments of Mr Kennedy and remind members that the poverty of which he spoke strikes most grievously at children.

I will introduce the members of our delegation. My name is Bob Witterick. In everyday life I am a lawyer with the law firm in Toronto called Smith, Lyons, but more important for our purpose this morning I am presently president of the Children's Aid Society of Metropolitan Toronto and chairman of the board of governors. I am very much involved in the children's aid society, having been a volunteer for a number of years. My wife and daughter also are volunteers and have been for a number of years. Also with me is Bruce Rivers. Bruce is the executive director of the Metro children's aid society.

As well, there is Mary McConville who is the executive director of the Ontario Association of Children's Aid Societies. Mary will be giving a broader provincial perspective. There is a very special person, Wilma Wrabko, who is a foster parent and is president of the Ontario and Metropolitan Toronto Foster Parents Association.

Each of us will speak very briefly. We would like to keep moving along in order to allow time for your questions.

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As I say, we are pleased to be here. We do understand that the province is facing major financial problems and these problems of course affect us as a transfer agency, as well. Mr Phillips was originally looking for some solutions. We are here to speak to solutions, not for the whole province of course or for the economy in general, but in terms of our agency and children's aid societies across the province.

The solutions we will talk about are solutions that do not focus on more money. I think perhaps your committee will find that, at least, refreshing in our comments. The solutions are simple; they are not complicated and we could actually begin tomorrow on these solutions if we could only implement them. As the Premier said in his TV address, really what we need is for people to get into a room and talk about creative solutions. With the nature of our agency, we are not free to simply make a decision and then implement it. We must be governed in some respects by Comsoc, and so therefore these solutions have to be endorsed by Comsoc as well. We are going to speak of those solutions this morning. I am merely setting the stage and indicating that we are not talking about more money; we are just talking about decision-making. We are talking about abandoning some of the systems, some of the funding concepts that we have been locked into up to this point in time.

Before doing that, perhaps I could establish our credentials. The Metro CAS is the largest child welfare organization in North America. We have more than 600 staff, almost 400 foster parents and approximately 1,000 volunteers. We are recognized provincially, as well as nationally and internationally, as a leader and an expert in the field of

child welfare. We are a non-profit organization, as you probably realize. We have an independent board of governors made up of private citizens from all walks of life, as well as four municipal appointees on our board. But as I mentioned, that does not mean we can simply make decisions and implement them as a normal private enterprise or business organization could do.

There are two parameters that govern us that in a sense restrict our ability simply to make decisions like the ones we are talking about this morning. First of all we are mandated, and I am sure that members appreciate this, by provincial legislation to carry out our function and obligations under the Child and Family Services Act, so we do not have the liberty of simply downsizing our operations because by law we must carry out those operations. On the other hand, and sometimes in conflict with this mandate, we receive our funding 80% from the province and 20% from the municipality. So we must carry out this mandate, which does not expand and shrink. It is there in the legislation with funding that does expand, but more normally shrinks.

I will just touch on the subject which Bruce will deal with in more detail. Of \$66 million in 1991 which was expended—I am talking about the expenditure side—for children, \$48 million was expended for children in paid institutions, even though this \$48 million, representing 73% of the whole, covered or serviced only 14% of the kids. Here you have a very large amount of money going to paid institutions representing 73% of our expenditures and covering 14% of the kids. On the other hand, the left-over amount, the balance of \$18 million or 27%, which is the funds expended on children at home with foster parents etc, is 86% of the kids served. You can see that a large percentage of funds is spent on a small percentage of kids, and the converse is also the case.

In our presentation we are going to use that situation, that circumstance, to show you what the solution is for our agency and for children's aid agencies. We are trying to focus on both the local with Metro and on the provincial with the children's aid societies throughout the province. I would like now to ask Bruce to make his presentation and to follow up on some of these points that I have just alluded to.

Mr Rivers: What I would like to do before I discuss the solutions with you is to discuss some basic information about the work of the society. Bob has already mentioned to you that last year we serviced about 19,000 children across Metropolitan Toronto, and of those children over 16,800 were served in their own home. This in and of itself I think will help to dispel a myth that the children who come to our attention are snatched in some way. In fact, most of our efforts are expended in maintaining children in their own homes. Last year we served about 2,700 children out of their own homes. They were wards of the society.

Last year we investigated about 2,500 cases of abuse, both sexual and physical. I mention this to you because that number is growing and will continue to grow. As well, we are open 365 days a year, 24 hours a day. After hours is when most of our activity occurs because that is often when families go into crisis and kids need to be protected.

Last year we served about 12,000 cases after hours and we admitted close to 50 children throughout the night.

Finally, you have already heard that we have about 340 foster homes across Metropolitan Toronto, but what is interesting is that a decade ago we had 750. There has been a dramatic loss of foster parents across this city, as well as across the province.

The 1,000 volunteers, by the way, really bring the heart of a community to bear on the work we do, and these people are special friends to our children as well as tutors, as well as helping out in the office.

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Some 83% of the children we work with live at or below the poverty line. The connection between child abuse and poverty is quite compelling; not that it is the root or the cause, but poverty in and of itself is a stressor. As well, 57% of the families we work with are single parents. Most of them are young moms and they are very isolated.

Last year we admitted—and this ties in with the previous presentation—150 children to our care for reasons of homelessness only. It had nothing to do with child protection. These kids were not being abused. The basic necessity of a roof over their head was not being met.

As well, one of the complexities that is facing us in Metro Toronto is the mix of our client group; in particular, a considerable influx of new Canadians. One in four children in our care is of a visible minority at this point and that means we have to make every effort to deal culturally in a sensitive manner as well as match the resources that child needs with his or her community.

Another point of interest is that we are increasingly needed to deliver our service in various languages; 668 families last year required an interpreter, a third party in the investigation. We had 370 cases last year that came to our attention because of crack and cocaine addiction. This is an incredible phenomenon and we anticipate it will continue to grow. Five years ago it was almost a non-issue. The other issue that is having a dramatic impact on us right now is the whole issue of AIDS and babies and small children who are HIV positive.

A decade ago we had 110 more staff to do what we are doing today, and we are servicing over 1,000 more cases a year. I believe we are experts in doing more for less and we have some good suggestions for you today. Finally, on top of the 110 positions that have been reduced, we are also sitting with a vacancy rate to address our growing deficit of 65 to 70 positions.

Now I would like to draw your attention to this overhead which highlights the costs for children in care. If you go back to 1987, we serviced about 2,687 children and we expended \$31 million. What is striking about this chart is that we continue to serve about the same number of children in care, but the costs have grown dramatically; \$48 million last year in our agency alone. The picture is even more profound as you go province-wide.

The reason I am showing you this particular information is because herein lies not only the problem, but the solution as well. It is our belief that we can use the money that is currently expended in this particular area to do a

better job for kids. Specifically what I am referring to is a defunct funding mechanism that exists within the Ministry of Community and Social Services. It is called ECR, exceptional circumstance review. Essentially it funds an agency retroactively after it has spent the money, but just on kids in care and only when they are placed in institutional placements. I want you to remember that information because when we get into the solutions, we are going to be addressing how that could change.

This year we are anticipating expenditures in the neighbourhood of \$66 million in Metropolitan Toronto alone. As Bob has indicated, 73% of that budget is expended on children in care; 27% of the budget is expended on the vast majority of kids who we service in the community.

What we are suggesting is that the money currently expended for children in care be shifted to two areas. The first is supporting all efforts we could muster to prevent children from coming into care in the first place. The bottom line here is that we have learned over time that if we address the smoke, we are more likely to put out the fire.

I draw that analogy for you because oft-times by the time a child comes to our attention and is admitted to care, we are performing triage, but we know of these families and unfortunately we are not able, because of the way we are funded, to intervene at an earlier point.

We are just embarking on a delightful program called Family Builders, and I just want to tell you about it very briefly. Essentially, instead of admitting the child into care, we put the worker into the family. It is elegant. The worker only has two families at any given time and they are able to do the work that is required on a crisis basis. It is very expensive to have a worker with only two cases at any given time, but when you compare the cost of admitting the kids as the alternative, it is cost effective.

As well, we have programs throughout Toronto that intervene at an earlier stage with families. One of them is called the community work program and they help to develop various things like parent drop-in centres that support these isolated single moms so they do not face the kind of desperate situation that might result in their children being admitted to care. What we are suggesting is that a portion of the money that is currently going into institutional care be shifted to prevent those admissions in the first place.

We have research that supports this effort and we have already started to implement it. However, the funding rules that currently exist within the Ministry of Community and Social Services mitigate against our front-ending service.

The third area of concern is the loss of foster homes and the fact that we need to be able to recruit and retain foster homes in Metropolitan Toronto. Currently 35% of the children whom we work with are placed throughout Ontario, far from the communities from which they come. That has a tremendous impact on these children. Not only are they separated from their own families, they also have to leave their communities and their schools, and the reason why is that we cannot recruit and retain foster parents in Toronto. We cannot compete.

To give you a vivid example of why we are in the situation we are in, we are paying essentially \$39 a day in

total for foster care in Toronto, and that is 24 hours a day with very difficult kids. If you compare that to the day care centre, for eight hours a day they are paid the same amount, \$39. If you compare it to what we are spending outside Toronto in a for-profit sector, we are spending on average \$75 a day per kid.

The crazy thing is that the funding mechanism that is in place right now allows us to increase the rate for for-profit organizations charge, related to numbers of kids, but it does not allow us to increase the rate for our own foster parents. What we are suggesting is that we increase the foster care rates. The way we can do that is by moving some of the money out of the outside institutional market into our own families and potential foster families in Toronto. Wilma Wrabko will speak to that very briefly in more detail.

What we are suggesting then is that we change the way we do business, that in fact we start to support the intent of the legislation, which is to utilize the least intrusive approach, that we keep kids out of care wherever possible, and that when they come into care, that we place them in foster care as opposed to the more costly outside institutions.

Now to give a provincial perspective to the issues I have highlighted, Mary McConville will speak to you.

Ms McConville: Good morning Mr Chairman and members of the committee. I am really intruding on Metro children's aid society's presentation today, so I am going to be extremely brief.

The Ontario Association of Children's Aid Societies has presented on two occasions fairly recently to this committee about the provincial matter of child welfare funding and I appreciate the opportunity to take just a few minutes with you today for two reasons. One, I think it is extremely useful to this committee to have a very clear local picture of how this provincial problem plays itself out. I am also glad you have an opportunity to see that the service providers throughout the province do have some solutions in mind, not only in terms of making for more efficient use of our resources, but also clearly providing better service for our children and families in our communities.

What I want to say to you today is that throughout the estimates process and the striking of this budget for 1992-93, children's aid societies in the province, even though they are classified as a mandatory service, are in trouble. They have been in trouble for some time. It is extremely important to us that you understand that this safety valve called the exceptional circumstance review does not take care of the financial requirements of societies, even though it is an administrative tool that appears to cause the Treasury a good deal of frustration, because it allows this ministry to go back for more dollars.

One has to understand that the funding mechanisms for children's aid societies are quite irrational and out of date and drive us to spend money in inefficient ways—Bruce has just spoken to that—especially in terms of outside paid resources. There is not a good deal we can do to change this system around without the support of government.

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In addition to the exceptional circumstance review, which is extremely restrictive in terms of what it pays for, there is another financial mechanism that is in place by way of legislation, by the way, called the child welfare review, which allows all parties involved in child welfare funding to bring the matter of a children's aid society's budget under review. A municipality can ask for a review and the provincial government can ask for a review if it is concerned about a budget that is submitted by a local children's aid society.

This is the mechanism that is supposed to attend to the base budget requirements of your local children's aid society in carrying out its mandatory responsibilities. Although the mechanism is still in use, it is virtually being ignored by the minister not just with this government, but also by ministers under previous governments, because it has been the intent of government for some time to examine the mechanisms by which we receive our funding and to change them. Unfortunately we are not getting far very fast, and it is extremely important that you understand the gap that exists between that safety valve and what it does for us and what our actual requirements are.

In your 1991-92 estimates process last year, you determined the needs of societies at about \$346 million for the entire province. Actual spending was more in the neighbourhood of \$370 million. You estimated that our exceptional circumstance requirements—money that pays for actual volume increases, children in care and the increase in cost to outside paid resources, a big-budget item with the Children's Aid Society of Metropolitan Toronto—were covered and that increases in the cost of conducting investigations for families that come to our attention were also covered.

There are all kinds of real costs to societies that are not met by the exceptional circumstance review. You estimated last year that you would require \$13 million province-wide to meet just the ECR requirements of child welfare. In fact, submissions to the government were well over \$20 million.

As we approach the 1992-93 budget year—our budget year of course is 1992; we go January to December—we are looking at a growing gap between base funding and actual spending of children's aid societies. This government has, especially in the last year and a half, tried to attend to the gap in a couple of ways. Some deficits have been attended to. ECR took care of approximately \$15 million of our overexpenditures and they have been cash-flowing the rest of the gap. The problem is that we are extremely concerned that the ECR estimate that will be put before the Treasurer for 1992-93 will not meet real needs, and in addition we are having to cope with the announcement of a 1% economic adjustment along with everybody else.

As we speak, societies, having no more than that in terms of information with which to plan and heading for one quarter into the fiscal year, are beginning to cut. I would like to give you just a sample of what is happening to the so-called protected mandatory services out there.

The Kawartha-Haliburton society in Peterborough has just announced it is cutting 17% of its staff. The Ottawa

society alone is looking at an accumulated deficit of \$330,000 at the end of 1991, and requires \$1.5 million in ECR money for 1992 alone. They do not know if they are going to get it. The York county society is looking at laying off approximately 40 to 45 staff. The people being laid off provide the very kinds of services Mr Rivers described to you that are absolutely essential to control child welfare expenditures, but also to protect children and to ensure they receive quality care when they are in care.

I am going to end there. The last thing I would like to ask you to do, because I know the counties you represent, is that each of you take a look at your own local society. I can assure you that each and every one of you has a society that is in trouble. If you take a look at what they are struggling with in terms of budgets, you will better understand (1) how insensitive the funding mechanisms are, and (2) what the present decisions that have already been made are going to do in terms of impact on service.

Mrs Wrabko: My husband, Joe, and I have been fostering for the Children's Aid Society of Metropolitan Toronto for 25 years. We have raised four children of our own, one of whom is adopted. In 25 years we have cared for 96 children of all ages and at the present time we have four boys aged 10 to 15 years and one autistic girl aged 14. I was a foster child myself and then an adopted child at the age of three. I grew up with one sister in a home that fostered children for many years.

I always had the feeling growing up that some day I would like to pay back Metro children's aid society for the care I received. In 1966, after Joe and I had been married eight years and had three kids of our own, seven, five and three years old, I decided the time had come to approach Metro CAS and with Joe's support we applied to be foster parents. In December 1966 we had our first foster child, that three-year-old boy, and we have not looked back since. Fostering in those days gave me the opportunity to be home with my family and to help others less fortunate.

Family life today is changing, however. Women can no longer stay home to raise families. In 1958, 58% of women were in the working force and today they say that by 1996, 80% of the women will be outside their homes working. The high cost of living and single parenting are some of the reasons women cannot stay home. People tell me that fostering is not economically possible for many families today. If we could make fostering an attractive alternative for people who have shown an interest in the past, more children could receive the care they so desperately need. In today's recession, with 78,000 people unemployed in Metro alone, more families might be prepared to consider fostering if it were made more attractive.

The children of today come to us more disturbed because of sexual and physical abuse, drugs and violence. One example of the kinds of children coming into our care is a little fellow who had been sexually abused from the age of three by his mother and her boyfriends. At one point he was left in bed for two weeks, sexually and physically abused by mom and her boyfriend and taken out of bed after two weeks, when the mother proceeded to burn a ring around his head to chase away the devils, she said. I am not sure who needed the devils chased. He had been so

badly abused that even at the age of 10 he could not let anyone touch him. Even after much help that abuse lives with him every day.

We need warm, caring and sensitive people to look after children like the one I have just described. We also need to provide adequate supports for foster parents to be able to do their job. We need good social work support. We need to be treated as part of the team. We need to receive relief on a regular basis and training on an ongoing basis and of course an adequate rate for financial reimbursement.

Metro children's aid society does a very good job of caring for children. Given the financial opportunity they need, I believe that will maintain their status as leaders in their field. Let's bring back the kids from private outside placements into our less expensive foster homes. The kids placed outside our system often cost close to double what it costs to maintain kids in foster homes. We all support keeping children in their own homes when it is possible, but we also recognize that a number of children cannot be maintained at home for many reasons.

I am not here asking for new dollars. I ask you to support our request to allow us to spend current dollars in a way that makes more sense for the kids we care for. If you believe in children and you want to look at ways to better spend the resources we already have, you must be prepared to examine creative solutions with us.

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Mr Witterick: I believe Wilma has said it all, but I want to add a moment's postscript. We would like to challenge you with a very blunt statement. Basically we believe that children must have the first call on this province's resources. We recognize that economic times are tough and that the social costs of a poor economy are extreme and that children often carry the brunt of that.

Our government in the province is facing difficult choices. We are suggesting that the government, in considering its options, must be mindful of the basic entitlement of children to protection from abuse and neglect. Child welfare is essential and it is mandatory under the legislation. It deserves special consideration. I would like to thank you all for listening to us. To the extent that time permits, we would be more than pleased to entertain questions.

Mrs Y. O'Neill: Wilma, I want to thank you publicly. I am a parliamentarian whose life has taken me in a different direction. You are what I would consider to be a silent hero. I am glad you broke your silence and hopefully you will be inspirational, as you must be, among your community and continue with that.

Mary, I would like you to say a little bit, if you may. I am from Ottawa-Carleton and I am sure it is the same thing in Metro and all over the province. You have one statistic here about Ottawa: "36 staffed residential spaces with 42 staff have already been cut in the past 10 months." Could you say a little bit more about that and what that means to the pressures you are describing.

Ms McConville: Ottawa, like Metro, is one of the societies that has a heavy residential component of its own, and by "residential" I mean it runs group home types

of facilities in addition to having its own foster homes that take care of large numbers of children. By the way, a significant number of children in the care of the Ottawa society are developmentally handicapped children and some young adults. It is the local ministry office that has encouraged the society to provide for the care of these young people, even though they are not traditional child welfare problems, because there has been no other resource in the area.

I suggest to you that if the society has already cut back to this extent on the residential program, it is reaching the point where it really has no more flexibility to find dollars within that residential budget. They have been unable to take the developmentally handicapped population and transfer it to another community service because the resources are not there, and those youngsters have to be taken care of. What they are likely doing—by the way, the Kawartha society is doing the same with some of the children in these staffed residential settings—is sometimes placing them in foster homes within the society, that is, they are approved by the society and run by the society. Those foster homes will need additional support. Those are the kinds of dollars ECR does not pay for.

In some instances they will be placing children in outside paid resources and unfortunately that is something ECR does pay for. It is likely that those children will not be placed in their own home communities. We also feel strongly that in some instances they are not getting the kind of care they could receive if they were cared for by their own local society, because the level of attention from social work staff and so on is not the same. Those are some of the implications.

Mr Carr: I will try to be quick. One of the problems the transfer people have is that with so many, such as school boards and hospitals, so much of their expenditure is salaries. For school boards it is 80%. Inflation is running at 2%. One of the creative suggestions has been putting salary caps at one, two and two, the same as has happened with the transfers. What percentage of your expenditures would be salaries? Would any type of restraining of the salaries help?

Mr Rivers: If I could speak to that, 45% of our expenditures are salaries. About 48% of our expenditures are related to the cost of children in care, the per diems for these various institutions. Less than 10% is overhead. Your point around capping is well taken. In fact, we are in the middle of negotiations with our own bargaining unit. Let me tell you that across the province the approach that is being taken at the table with children's aid societies is that we have nothing to give.

Mr Carr: If the province was to dictate and take that out of your hands, you would not need to be doing the bargaining. Would you like that, where the province says you will only be able to give your workers 1%, 2%, 2%? In that way it frees you up and the bad buys are provincial politicians.

Mr Rivers: That does not free us up at all. The one, two and two does not free us up. Looking at the kinds of costs children's aid societies have absorbed, I want to give

you a couple of examples. In Metro the health insurance tax cost us \$250,000 to implement. The implication there is that you either cut programs or create a deficit. Another example is the GST, \$140,000; pay equity, \$374,000. All those legislated programs have been implemented and we have created deficits as opposed to cutting programs. Currently we are faced with the crisis of needing to maintain that. I just want to make it clear at this point that people working in the area are clearly bearing the brunt and they are looking at 0% or close to 1%.

The Chair: Mr White—we have three actually—Mr Drainville and Mr Ward. I do not think you will all get in.

Mr White: I have a couple of questions. First of all, I want to commend you all. I worked with your agency as a social worker quite some time ago. That was at a time when there was actual preventive work being done. You have mentioned a lot of problems with the ECR. I have spoken with the director of our local society in Durham around those problems. He also says that the ECR is not added into base budget for increases for the following year.

Your suggestion, Mr Rivers, that a large proportion of the families where the child will come into care may already be on the ongoing case load; that is, past the intake. Would you have a proportion, or is that anecdotal?

Mr Rivers: Sorry; I do not understand your question.

Mr White: You suggested that many of the families where the child comes into care are families your agencies already know.

Mr Rivers: Yes, they are.

Mr White: They would be families that are ongoing case load, past intake.

Mr Rivers: Yes.

Mr White: Would you have any idea what the proportion is of those kids coming into care?

Mr Rivers: One hundred per cent of the kids in care come from families that were screened through our intake department.

Mr White: Of course.

Mr Rivers: The issue at intake is what alternative to admission we can offer this family if the situation has deteriorated so badly that we feel the child is in need of protection. What we are suggesting is that we offer a preventive service that will keep the child in his or her own home instead of admitting that child into care. In order to do so, we need to shift the dollars out of the in-care budget to the front end to provide that prevention. Does that make sense?

Mr White: Absolutely, but what I am concerned about—

The Chair: Mr White, I am going to have to cut you down here.

Mr White: You always do that.

The Chair: We have two more members who did not even get a chance to ask a question. There are quite a few members here who had questions to ask.

I would like to thank you for taking your time and coming before this committee. I can tell you as Chairman of this committee that I will take these back to my riding so I can have an information package and answer a lot of questions that people have in this particular area. Do not think these pamphlets go into unused drawers. They are used, because we have problems all over the province in this particular area. I think your recommendations here can be used in our ridings also, so I would like to thank you again for your presentation before this committee.

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Mr Drainville: On a point of order, Mr Chair: Is it possible to limit the presentations to 20 minutes and ensure that the members of the committee have opportunities to ask questions? I must say it is rather frustrating to receive very good deputations but end up in a situation of not being able to ask a question.

The Chair: The one thing I have signified to the different parties is that three people are going to ask a question. But what has happened, even with 15 or 20 minutes, is that one member has preambled for five minutes and the respondents only had a minute to respond.

Mr Drainville: That is not what has happened today.

The Chair: No, but I am just saying that has happened. With the 20 minutes, that gives us six minutes.

Mr Drainville: I guess what I am suggesting, and I do this with great respect, is this: there is no question you are offering the groups opportunities to deal with as many matters as they feel they need to. The difficulty I am having is that the Kawartha-Haliburton Children's Aid Society is in my area. There were questions I would have liked to have put, and I could not. I accept that is the reality, the nature of the beast here, but it would be helpful if we had more time. In fact, rather than immediately going to someone who has asked a question before, you might tend to get somebody else on the particular side that person represents.

The Chair: If you talk to the party whip, maybe that could be resolved. The thing is that with some of these submissions, these people are here to get their point across for their particular areas. As they run on, it leaves less time for questions, but there is information that maybe they want to get across to this committee. It is hard to say, "I have to cut you off."

Mr Drainville: Absolutely. You have to make whatever decisions you have to make, Mr Chair. I am not assuming this is an easy situation.

Mr Villeneuve: His middle name is Solomon.

The Chair: What I do is I ask the question first of the critics from the two opposition parties. No one puts their hand up on that side unless they want to ask, other than the critic. So I take a look on this side and I see your hand go up second. I have gone along. It is up to the members over there to decide whether—someone can say, "I'll answer the question this time if you don't mind."

UNITED VOICES FOR FAIR TREATMENT IN CHILD CARE

The Chair: The next group we have coming forward is United Voices for Fair Treatment in Child Care. Would you mind taking a seat before one of the microphones? As I have only one name here, perhaps you would not mind identifying yourselves for the purposes of Hansard. You may begin. We have until 12 o'clock. I would like to welcome you here this morning.

Mrs Cousins: My name is Jackie Cousins, chairperson of United Voices for Fair Treatment in Child Care and I am a parent with two children in the private child care system. With me today are Carolyn Koff, an owner of a private day care centre, Janet Hodgkinson, a child care worker in a private centre, and Amina Bhaloo, also an owner of a private child care centre. On behalf of our organization, I would like to thank the members of the standing committee on finance and economic affairs for allowing us to comment on the NDP's current child care fiscal priorities and their impact on the people of this province.

United Voices for Fair Treatment in Child Care is an organization of parents, child care staff, owner-operators and taxpayers who share a vision of an affordable, accessible, flexible system of quality child care in Ontario, a system which recognizes parents as deciding who should look after the responsibility of caring for their children and a system which treats all participants in an equal and non-discriminatory manner.

I am sure you are most aware of the NDP's recent decision to spend all new child care funding with a view to eliminating the private or commercial sector. They hope to transform child care from its current user-pay system, with fee assistance available for needy parents, to a fully publicly funded, universally free extension of the public education system.

A total of \$225 million has been specifically earmarked over the next five years to directly and indirectly eliminate existing, viable, quality private services wanted and needed by the community. This \$225 million is made up of \$30 million in wage enhancement funding for child care staff—in non-profit centres only—over the next five years and a \$75 million infusion into the non-profit system.

However, this \$225 million does not increase access for parents to day care for their children. It does not improve the quality of the system, discriminates against women and children, will significantly increase the cost of delivering child care while reducing tax revenues currently generated by 650 businesses, and does not address the problem of poor financial management inherent in the non-profit sector except by doling out more money to temporarily bail them out. How shameful that not one single dollar of this \$225 million in new funding has gone to parents on subsidy waiting lists who so desperately need day care today. Not one more child has received access through the subsidy system.

You may be interested to know that the Honourable Marion Boyd recently told our organization in a private meeting that her cabinet considered using these funds to provide fee assistance for the thousands of children on subsidy waiting lists, but decided instead to invest in converting

private services to non-profit. Our fear, which is shared by thousands of parents waiting for subsidy, is that the Treasurer will be unable to find any additional funding for child care subsidies and that those who need it most will be left out in the cold. The NDP call this an investment in Ontario's future; we call it a sacrifice of the children and parents needing help right now. There is no sound, logical basis for the NDP's expensive, discriminatory pursuit of a sector providing child care services to only 5% of this province's children in day care.

A letter written by Zanana Akande, former Minister of Community and Social Services, to one of our members in Stroud states that "quality programs exist in private centres and meet parental expectations."

The 1986 SPR Associates Inc study concluded that discriminatory policies based on auspice are ill-founded, that they "cannot be justified on the basis of the information available; that auspice is a clumsy concept for policy manipulations of quality; and would have uncertain or potentially even negative impacts on the quality of care."

Metropolitan Toronto day care planning's 1986 Blueprint for Child Care Services states, "In Metro's experience, the provision of quality care has no direct relationship to whether the program is a commercial or not-for-profit operation."

Our message is simple: It does not matter under what auspice child care takes place as long as it is regulated and of high quality. What does matter is that quality is ensured by the province fulfilling its mandate to properly enforce the appropriate legislation. If the government wants to reform child care, it already has the power to do so. It does not have to take over the system in order to make changes. Scarce tax dollars would be put to much better use if they added more subsidies to the system and helped parents become self-sufficient.

Independent research clearly shows that Ontarians want to keep their current child care options. A 1991 Decima Research survey found that an overwhelming 92% of all parents using or having used child care would choose the same arrangements again. A December 1991 Gallup poll found that 68% of respondents preferred the current mix of child care options. Even the Ministry of Community and Social Services, combined with the Association of Municipalities of Ontario and the Ontario Municipal Social Services Association, in its Provincial-Municipal Social Services Review Committee review completed in 1990, states in recommendation 17 that municipalities should maintain the current mix of day care service providers. United Voices has collected tens of thousands of petitions from parents in support of their chosen private child care centre.

We also question the ability of the non-profit sector to keep its own house in order. The 1989 Provincial Auditor's report cites a severe problem in the handling of finances in the non-profit sector.

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A May 1990 edition of York magazine states that a survey of non-profit centres in Metropolitan Toronto found "45% were in debt; many of these survive by putting up parents' personal assets as collateral for loans. They scrimp by spending less on part-time staff, food and toys.

Janet Davis is cited as saying that: 'Another Metro problem is board burnout. In two recent Metro cases, board members could no longer cope with the strain of losing money and of not being able to meet provincial day care standards.'

The current building of luxurious non-profit centres in areas where vacancies exist is a terrible misuse of taxpayers' dollars. For example, one Sudbury non-profit centre built last year cost \$1.1 million for 36 spaces. They imported their custom lighting from Germany and had laid in ceramic tile.

Why does the taxpayer have to pay for day care services that already exist? This February 1991 edition of Community Action reveals that taxpayers paid a total of \$1.2 million to buy out two commercial day care centres that converted to non-profit. Not one more space was added.

Even the Metro Day Care Coalition admits to the problem of handling finances within its own sector. They have stated in their response to the Ontario coalition's paper on universal day care: "We recognize that many non-profit centres have difficulty with financial planning. How do we ensure good business practices in the non-profit sector?"

What about the staff, many of them members of United Voices, who are owed for months of direct operating grants and never receive them?

Even the NDP government has admitted that non-profit centres cannot handle their finances properly, by allocating \$11 million of the \$75 million as bailout funds. The fact is that most non-profit boards of directors lack the expertise to run complex businesses, a sentiment echoed by the Ontario coalition in its 1990 brief to the select committee on education.

Yet the private sector has stood up to the test of accountability. The 1990 Levy Coughlin study of direct operating grant distribution found 99.5% of all direct operating grants in private centres flowed right through into the staff's pockets. However, despite significant subsidization, non-profits could only do as well as 86% and municipally run centres as well as 81%.

Clearly there is no justification for this government's attack on the users and providers of private day care. In fact, evidence points out there is a severe accountability problem in the non-profit sector. There is no guarantee that pouring millions more into the non-profit system will be an effective use of taxpayers' dollars.

I would like to examine for a moment the impact on the cost of delivering child care if child care were to become a publicly funded essential service. At minimum, the 12,000 children on subsidy waiting lists would have to be accommodated. Add these children to the 108,000 existing licensed spaces and the minimum operating costs per year are \$780 million, using an average cost per child of \$6,500.

This leaves 1.6 million children who could potentially access a universally free day care system. Of these, 700,000 are under the age of 5 and would therefore require full-time care. If we assume that half the families with children under 5 use the free child care system, another 230,000 children would have to be accommodated. Total annual operating costs for accommodating 350,000 children

under the age of 5 would be \$2.3 billion per year. This does not include allowances for pay equity, a significant factor since salaries comprise 75% of total operating costs.

Additionally there are another one million children from ages 6 to 12 who could potentially use day care on an off-school basis, before and after school, PA days and summer holidays. If we estimate that half of these children use the free system, at an average cost of \$3,000 per spot, the operating costs to accommodate these children would be \$1.5 billion, for a total operating cost of nearly \$4 billion to accommodate only half of this province's children.

Capital costs to build an additional 235,000 full-time spaces and 500,000 part-time spaces are another \$8.7 billion, using the ministry figure of \$18,000 for one full-time space and an estimated \$9,000 for each part-time space. Annual administration costs at 5% of operating costs would be another \$200 million.

Clearly, in light of today's deficits, economic difficulties and the serious problems inherent in our established universal systems such as health care and education, a free child care system, which in reality would cost over \$4 billion annually to run and \$8.7 billion to build, is not possible or probable.

Therefore, spending \$75 million on fee assistance instead of on bricks and mortar would mean the disappearance of this province's entire waiting list. Vacancies in existing child care centres would be filled. Social assistance costs would decrease and 12,000 children on waiting lists would be given an opportunity for an enriched start in life, an opportunity this government is systematically denying them.

Without a carefully thought-out plan, our child care system will be in a crisis. Marion Boyd's analysis of the situation as stated during the January 22 lockup was, "We are fortunate that so many people have lost their jobs and are therefore looking after their children at home, allowing us a respite while we shift our priorities." This is simply not acceptable.

We are real people, with real kids needing child care, or who are committed to providing quality child care for our children. Who knows, perhaps Marion Boyd plans to open up a day care here at Queen's Park, because that is exactly where we will have to bring our children if our centres close—right here on your doorstep.

We must therefore act accordingly with our child care spending and be realistic in our planning. To say that our goal is a universally free child care system is simply an ideologically driven statement and an ignorance of the facts. It is our submission to the standing committee on finance and economics that we need to act responsibly. We must identify those families who need assistance and provide the funds to give them the ability to continue to work, to get off social assistance and become self-sufficient or to enter retraining programs. We must encourage the development of child care programs where there is a valid, substantiated need. We must improve quality by hiring more consultants to better enforce our Day Nurseries Act. All wage enhancement funding must be distributed evenly to all child care educators so that no one segment of our population is systematically discriminated against.

I thank you for your time and I would like to pass the floor over to Janet Hodgkinson.

Mrs Hodgkinson: I should like to thank the chairperson and the members of this committee for allowing me this opportunity to bring my concerns and my feelings before you today. Being the optimist that I am, I hope that this time someone on this committee will listen.

My name is Janet Hodgkinson and I have worked for 21 years at Central Day Care Centre in Hamilton. Central Day Care is a commercial centre. This government has told me that I am inferior to a person with the same years of experience who is working in a non-profit centre. According to the government, I have therefore contributed nothing to the welfare of those children who have been under my care. Is it any wonder I and others like me are angry at this government's policy?

We are fortunate, however, in that the parents we serve in our commercial day care centres trust us to provide them with high-quality day care services, respect us as professionals committed to excellence in our field and support us in our struggles with this government 100%. These parents have taken the time to educate themselves on the issue and are obviously more knowledgeable than the government. This is very sad.

If this policy is passed, I shall lose my seniority and everything that goes with it. I am very hurt to think that for years I have attended meetings, striving for better quality day care, and for all that, all I get is discrimination and punishment because I chose to work in a commercial centre.

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If this government feels the system is in such bad shape, then you are saying to me that parents who use the commercial centre are bad parents. You are also telling me that early childhood educators are not doing their job and do not care. If this is the case, who is responsible for putting them there? The colleges, the screening process for applicants, the field placement supervisors who assess the students? If the boss does not give the right instructions to the fellow digging the foundation of a building, you and I both know the building is likely to collapse. So let's change the system. Start there instead of getting rid of commercial centres. They are not your problem.

I think the ECEs are doing a fantastic job. These girls in the commercial sector are every bit as good as the girls in the non-profit, maybe even more so, because for sure the money factor does not enter into it. They obviously care about their job and the children, since ECEs in the commercial sector only receive up to \$3,000 in government grants while their colleagues in the non-profit and government centres receive up to \$8,000 in government grants.

As for the parents, do you really think they do not care? Do you think they throw their children into a centre and leave them for eight hours and just walk away? I do not think so. In my experience, the majority of parents spend weeks and sometimes months deciding on a centre which suits them. Do not tell me that parents should not have that choice.

The government sets the regulations. The government regulates the system. Are the consultants doing their jobs? Do we even hire enough consultants to do the job? Don't tell me that commercial centres are your problem. If the builder does not put up the walls, you are still going to have the house falling down.

We feel that the system works, though it could stand some improvements. So why is this government disrupting the whole system instead of improving what is already in place? I am not naïve. I realize governments cannot please everyone. But let's use common sense and logic before we make bad decisions and completely disrupt and destroy people's lives when there is no sound reason for it. Listen to what the people are saying. We all have feelings for the way some things should go, but if government feels universality is the way to go, tell us the logic of this decision. Listen to what we have to say. Let us decide together and work together, not against each other. Let's build on what we already have instead of tearing it apart. The whole house has to be strongly built, and if the walls and the foundations are strong, it should not matter what kind of rooms are inside it.

I want to tell you that I have had many consultations here in the past year. I am still none the wiser or any further ahead. I am consulted to death and I am sick of it. Nobody is listening to what we are saying. Even most of the NDP MPPs do not listen in their own ridings. We feel as if we have the plague; that is how bad it is. They do not even care how it affects their own area. These are the people who are supposed to be fighting for us.

Where does the little guy go? We do not have financial backing. If it was not so bad and so very serious, it would be laughable. I sit in a room in consultations. I have the opportunity to speak. As far as I can see, when it is all over, they have not listened to a word I have said and all that has been accomplished is that I have wasted my time and the taxpayers' dollars. My time is very precious and very valuable, and my tax dollars too. All I did was give them the opportunity to stand up in the House or anywhere else and say they had consulted.

I was very happy when the NDP government was elected, because I thought here was a government who would be willing to listen to the people, who thought about and cared about the little guy in the street. How naïve I was. I found out last January that we had elected a government that does not listen and really does not care what happens to the people of this province. My own feeling is they are like horses in a race. Their blinkers prevent them from seeing what is going on around them. The race they are in is going to cripple this province and day care.

In closing, and in case you have forgotten the children, how will they be affected? Who speaks for them and just where do they fit in in this mess?

Mrs Koff: I am Carolyn Koff. I have a day care centre in Richmond Hill. I have had this school for 12 years. Before that I taught primary school for the Toronto Board of Education. I have been asked to talk today about how the NDP's policies will affect our parents, our children and our staff in our schools, and I have decided instead to talk

about how it has already affected us, because it is already happening.

In Richmond Hill between 1990 and 1991, 11 non-profit day cares were built. One day care has five children in it; another day care has 14 children in it. I guess the NDP expected the parents would be swarming to its day cares, and I am not being sarcastic. The non-profits are in trouble. They are experiencing serious financial difficulty. So our provincial government is bringing in legislation to force a certain segment of parents, the subsidized parents, to go to its day cares.

These people who are on subsidy are now fighting the NDP government. I received a fax on my machine yesterday from a parent who is not in our school. This parent has contacted the ministry and is asking why she cannot choose the school that she has made her decision is the best school for her. They are forcing the parents who are choosing subsidy—and subsidy is our tax dollars—to go into their non-profit day cares. These parents who are fighting it are saying that our tax dollars pay for subsidy and that they should be allowed a choice of day care. Just because they are on subsidy does not mean they should not be allowed the same choices that parents who are on fee assistance should be given.

Your and my tax dollars are being used to allow this government to go into competition with private enterprise. It is causing a destruction of choice for parents. My fee-paying parents and my subsidized parents chose my day care, and they also chose the 650 private day cares that are in Ontario. They were not forced to choose our day care; they chose us. They are fighting to keep their children where they are, where they are getting quality, affordable, accessible care.

If our children are removed from our centres, there will be disruption. There are about 30,000 children in private centres in Ontario. There will be disruption for the children when they are being removed and when they are being placed. But you know what? Children are resilient. They will settle into the choice of day care that the parents are forced into by the elimination of private day care.

How is my staff affected? I am going to be handing this out to you afterwards. It is excerpts from 13 letters I received from my staff when I presented a pretty radical—at a staff meeting I had. I offered conversion to my staff for a number of reasons, and if any one of you would like to hear the background on it, I put my phone number at the bottom of it, and I will discuss it with you. You will be able to read it and you will see what the responses were.

My staff, all 13 of them, voted not to convert. I was not biased when I presented this. I had three staff—one who has been with me seven years, one five years and one four years—come to me the next day and say, "We would just like to know where you stand on this, because last night you seemed to be leaning towards conversion." I said, "Give me your response," and they gave me their response. Then I said to them: "I want to continue the battle. I don't want to give up. But I also want to do what's best for you people because not one of my staff has left my day care." There are 11 new day cares they can choose from. I feel committed to them.

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One quote from one of my staff, I think, pretty well says it all: "I feel very good about the family system we provide. It allows the children to learn in a relaxed, loving environment. The parents are welcome to come in and sit with us and give their input, and the teachers have a good support system with each other. The school works as one unit, just like that of a family, with the love, caring and respect for each other. I feel that's why the teachers have chosen to work here and the parents have chosen to put their children in our care. The quality is still the number one reason to stay as we are and not convert."

Speaking on behalf of all the private day care operators who, effective tomorrow, February 12, begin this battle, how has this attack on private day care affected us? It has taken away our choice too: a choice of jobs, a choice of a business we decided to start using our own money. I had this great dream 12 years ago that I would start up a day care. It was not so much the money; it was the time all of us have put into it. It was worth it and I love it. I am still there 12 years later, except now I am here defending myself on behalf of my staff and parents and on behalf of owners as to why we should be not only allowed but encouraged to be able to continue. I do not think we have done anything wrong.

Day care owners are mostly women. The battle has strained our marriages. It has put our husbands under pressure. It has created financial stress.

I want to finish. I do not want to get emotional.

We need to do the right thing as owners of day cares for our staff, like Janet, who has been in day care 21 years. We have to do the right thing to keep our marriages together. We want to keep our jobs. We need to continue this fight for the parents, the staff and the children. We also need to continue the fight for the taxpayers. I think \$225 million during a recession to destroy something that is as valuable as what we are providing is terrible.

As important as all of that is, I also feel we have to fight for freedom of choice. We have to take a stand against an assault that has not come from some external thing; it has come from within our own country by our own government. We have to fight to not allow this provincial government to use tax dollars to create a system that takes away these choices.

I have this bulletin board in my school and the staff and parents put stuff on it. It is all political and it is pretty interesting. Several parents and staff have said, "You know, we have a right to fight this." My response is that we not only have a right to fight this, we also have an obligation to fight this for the future of our children.

The Chair: Mr Carr, we have about five minutes altogether between the three parties, so make it quick.

Mr Jackson: If I may, on behalf of Mr Carr, I want to thank you for an excellent presentation. Janet, you will lose all your seniority rights. This discriminatory move is a hard hit against women, who are the predominant workers. How do you feel about losing all your seniority rights and all opportunities for employment?

Mrs Hodgkinson: Actually, it is just anger. I have been through them all. I am angry; I am emotionally upset; I am everything. I feel that I am being put out to dry—those are the only words I can use—that they are saying to me that I have not given care to these children, that 21 years are just no good to the system. I really feel angry that they are doing this to me. I really feel angry that I work in such a very good day care centre, it is extremely well run and they get good care, and now they are saying: "Forget it, Janet. You're out."

Mr Jackson: Briefly, Carolyn, one question: You mentioned this issue of the proliferation of non-profit centres. You meant to say with government funding, but that is a given, an understood. Do you not feel that it is the responsibility of a committee such as this to look at the number of day care centres that are closing in this province? We are walking away from an investment on the part of any government, whether it was started by the Liberals or by the NDP. Those are closing and public moneys were used. They are closing and somehow this committee should be looking at, "Are we getting value for our dollar?" or, "How many of these centres are closing?" versus the doors that are being shut artificially in the private sector, which is willing to continue. Should not a finance committee of the Legislature be looking at this critical issue? It is not an ideological question. It is just a dollars-and-cents question about, where are the priorities of dollars to improve access for children to any form of day care?

Could you comment about that, because I have been unable to get the statistics. Perhaps through this Chair we will be able to get those statistics from the ministry as to the number of non-profit centres that are closing.

Mrs Koff: We would like to get the statistics on that. At this point we do not have any statistics. The only things we have are things that are passed through ministry news releases, but they never talk about the closures; they always talk about the opening of day cares. They even use the term "anti-recession" at the top of their news releases when they open up non-profit day cares, while day cares in Richmond Hill are closing.

The Chair: Mr Jackson, maybe I can ask the researcher here if we can wind up getting some of this information for the committee members.

Mrs Koff: That would be great.

Mr Sutherland: Thank you for your presentation. My sense is that I do not think you should be under the impression we have not valued your contribution and the fact that you have provided good care. I think the reality of the situation is that there is good care being provided in private day care, that there is good care being provided in non-profit and that there is probably bad being provided in both. That is just going to be a simple reality of the system. It is not a question that we do not value your contribution. I am sure you have provided very good care, that you have provided a very good contribution and that your centres have been run effectively.

You also mentioned the issue that people will not have a choice. I have not seen where the government has said, "You're going to have to go to this non-profit day care

versus that non-profit day care." People will still have the choice to decide which non-profit day care.

On the issue of seniority, I suspect if you were converting to a non-profit from the profit one, you would still be able to keep your seniority through that conversion.

I guess my sense of what is going on here is similar to what has gone on in education. We do not fund private education; we have one public system here. It is not to say that what you have done has not been valuable. It is a question of whether in the human services field, when we are providing those types of services, we still should have a profit motive in that in terms of delivering those services, and when the government is providing a subsidy, whether that should be going into a profit area in terms of the human services field. That is what it comes down to, in my sense anyway, not that you have not made a valuable contribution or have not provided good service.

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Mrs Cousins: I would like to comment on the first two parts of that statement, one being the choice. Yes, there is choice being taken away through parents obtaining subsidies. They are now being directed into the non-profit centres, despite wanting to choose a private centre. That is a fact. Second, choice is being taken away from full-fee-paying parents, which are over half the parents in the system right now, simply by their centres being threatened with closing or on the border of closing because of the unfair subsidization of non-profit centres, deliberate subsidization in order to threaten the viability of private centres. If my centre were to close because of these policies, my choice would be taken away, because I chose that centre.

Second, with respect to seniority through conversion, you are assuming that all centres convert. The reality is that many centres will not convert. I do not think the ministry has any idea how many will convert and what will happen. What will happen if the private centres in my area do not convert and all of a sudden all these spaces are lost to the system? Where will those children go? There is no guarantee these children will have alternative spaces.

Mrs Y. O'Neill: You ask whether have you done anything wrong. I think you have all done a lot right. You have at least half a century of experience among you. Choice is being taken away by this decision and that is what bothers me the most. I also find it very difficult to accept the statements being made that parents do not have any interaction with the commercial day care, that it is only by having a board that parents interact. I am sorry; I have seen much different.

I am very concerned about the attack on small businesses, and small businesses run mostly by women, as you indicate. What I find so confusing are the reasons. The NDP government has made decisions in reverse, the colloquial word being flip-flop. I have said in the House a couple of times that I hoped this is going to be one of its flip-flops, because it would be a flip-flop in the right direction.

Your relationships with the individual municipalities, I understand, have changed because the municipalities of

course are partly responsible for the funding of day care, and they are now being directed, I understand—I would like you to verify this—not to direct any of their subsidized spaces to your centres. Is that correct? Can you say a little about your relationship with the municipalities?

Mrs Koff: We met with Peter Crichton two weeks ago and he assured us that even though the minister has made a request that no new subsidies be granted, that no parents be allowed to choose the private sector, he will not abide by that. He has given us his word.

Mrs Y. O'Neill: I am sorry; I do not know the person you are speaking of. Could you identify his position?

Mrs Koff: He is the commissioner of community services, of purchase of service for children's services division with the Ministry of Community and Social Services. Jackie and I met with him and asked him that question. What is happening is that Marion Boyd has requested in writing, and we read the paper it was written on, that she would like to see all the municipalities direct any new fundings, any new subsidized parents, into the non-profit.

I thank you for your comments. We need the support. I wanted to respond to—is it Kimble? There was one point that Kimble made. What he is saying is true because this is what the public is seeing, and I think it has to be clarified. It is an issue of public dollars going into the private sector. It is; this is true. Public moneys go into the private sector all the time; that is also true. There are publishing companies; Karen Haslam was in the newspaper just last week stating that 30 publishing companies will be receiving public moneys. It goes into the private sector all the time; that cannot be argued. I think the point is how the money is spent once it gets in there. If we have proven historically that of the direct operating grant, where we only get 50%, 99.5% of it went into staff salaries, I think it should be a different issue.

Mrs Bhaloo: I would like to make a comment here. You said there are probably very good day care centres that are commercial, as well as non-profit, and then there are centres that have poorer quality in both sectors. We are suggesting that, yes, the system needs help. The children of this province need help, because there are a lot of them out there waiting to get in. There are a lot of parents out there waiting to put their children into day care so that they can go for training, can go for gainful jobs and create more taxes and self-esteem for themselves.

What we are suggesting is that this government, instead of disrupting and destroying the system which exists, start from scratch and correct the weaknesses in the centres in the system, and that would be by regulating and helping the centres that are not providing up-to-quality care. If they are not able to provide quality care at the end of it, then close them. But do not destroy the whole system and turn around and say, "Okay, we're going to put about \$4 billion to \$8 billion in to create the whole system again," which in itself has a lot of weaknesses.

The opposition and the coalition call this solution I am mentioning a Band-Aid. I would like to use the analogy of children, because all my life I have dealt with children, their welfare and what their future is going to be. This

would be like saying a child falls down and hurts his knee and we suggest: "Let's treat it. Let's put a Band-Aid on it, if that is the need for it." But the opposition and the coalition and this government are suggesting, "No, amputate that leg and we'll provide an artificial leg for him when we can afford it." Is this what we want to do? Is this what we are doing out there with other businesses that are losing jobs and so on, and the government is putting public dollars into it?

The Chair: Thank you for appearing this morning. We ran short on question period, which was a discussion in the last group, but your telephone number is there and any members will feel free to call you to get more information.

Mrs Cousins: Thank you for giving us the few additional minutes.

The Chair: We are recessed until 2 o'clock.

The committee recessed at 1207.

AFTERNOON SITTING

The committee resumed at 1406.

ONTARIO HOME SHARING PROGRAM

The Chair: We will resume our pre-budget consultation. I would like to welcome the next group, which is the Victorian Order of Nurses Home Sharing Program. I would like to welcome you to this committee. We have until 2:40. If you can, leave some time at the end for questions from the three parties. You may begin.

Ms Bowlby: Good afternoon, Mr Hansen, Chair of the standing committee on finance and economic affairs, Mr Sutherland, Vice-Chair, honourable members and interested participants. We wish to thank you for the opportunity to meet with you.

Today we would like to advise you of the ongoing success of the 17 home sharing programs across Ontario. This meeting will enable home sharing advisory committee members, co-ordinators and consumers to highlight the value of this innovative community-based program.

We would like to share with you three essential points that exemplify the importance of this program for communities across Ontario: (1) that home sharing is cost-effective; (2) that home sharing offers a broad range of innovative community services tailored to the needs of a wide variety of clients within each of the communities throughout the province, and (3) that home sharing facilitates housing intensification by making better use of existing housing stock.

Finally, it is important to point out that the principles, priorities and broad public goals of the Ontario home sharing programs are consistent with the recent A Housing Framework for Ontario: Issues for Consultation, a June 1991 publication, as outlined in the response submitted by the Coalition of Home Sharing Program Coordinators in the fall of 1991.

I would like to introduce myself. My name is Christine Bowlby. I am the home sharing coordinator for the VON program in Hamilton. I would like to invite the other presenters and the members here who are representing the home sharing programs to introduce themselves. I believe you have a list of these members in the package that was circulated today for your information.

Mrs Beange: My name is Edna Beange. I am the chair of Sharing, shared housing for seniors serving Metro Toronto. I met a number of you last year when I made a presentation on our behalf.

Ms Lerner: Good afternoon. My name is Ruth Lerner. I am a Scarborough Board of Education social worker and I am the chair of the advisory committee for the Scarborough Housing Help Centre.

Ms Bacque: I am Susan Bacque. I work for the housing department at the city of Toronto. I supervise several housing programs, one of which is the home share program.

Ms Bowlby: In the interest of time, we might leave the introductions of our other members until the end of the presentation simply because we want to get through this

presentation in a timely fashion. I will leave it to Edna to get us started.

Mrs Beange: I am going to start with a history of home sharing. The home sharing programs have been formal organizations in North America for over 20 years. Home sharing has had a national profile in Canada for the past 11 years. In Ontario, Niagara region was the pioneer in 1980. In 1985, the Ontario Ministry of Housing began to co-fund programs with regional governments through cost-sharing arrangements. In the past seven years this partnership has worked very well. Presently there are 17 programs growing and meeting the social, economic and housing needs of a wide variety of Ontarians. In fact, the Ontario model of home sharing is internationally recognized for its effectiveness, cost-efficiency and innovation.

Home sharing programs have been established to screen and match those individuals who are interested in shared accommodation as a safe, affordable housing alternative. Many of the programs focus on the needs of seniors, that is, persons 55 years or older, and concentrate on inter-generational matches providing support to the older person to remain independent in his or her own home.

Home sharing also assists special-needs clients in terms of facilitating affordable housing arrangements. Some of these special-needs clients include: visible minorities, new immigrants, individuals experiencing family violence, residents of second-level lodging homes seeking more independent living, adult disabled, single-parent families, healthy seniors, and frail elderly awaiting institutional placement both from hospital and from home. Alternative living arrangements for these special-needs populations would require extensive government and subsidized housing. Home sharing is a creative community initiative that enables the development of a healthy, caring community across the province.

Home sharing programs have four main objectives: to provide an alternative for individuals seeking safe and affordable housing; to enable seniors to continue living independently within their own homes and neighbourhoods; to reduce social isolation experienced by both sets of clients by creating opportunities for increased companionship and security, and to intensify and preserve the existing housing stock in a unique way. In short, home sharing is a means of fostering independence, self-determination and autonomy in the lives of many who have been forced to live in socially and economically restrictive circumstances.

The cost-effectiveness of this is apparent. It has been abundantly clear that the provincial government is in a very difficult situation financially. Following the Premier's televised speech in January and the concern that the \$9.7-billion deficit could expand, the Treasurer and the ministries are working diligently to cut back on government expenses. We applaud your government's efforts to control this deficit in spite of a recession. As supporters of this cost-effective and innovative housing program, it is our responsibility to ensure that you are aware of all the cost-saving initiatives facilitated by home sharing.

Although the actual dollar contribution is small, the Ministry of Housing's share of \$40,000 per program has a large multiplier effect in other ministries such as the Ministry of Health, the Ministry of Community and Social Services, the Ministry of Citizenship, and in human rights, and for the disabled, seniors and race relations, the new division of community health and support services, and throughout each of the regions and municipalities across the province.

A sample of such a cost saving is outlined in the following case study. One of the VON matches involved home seekers, a couple with a 17-year-old daughter, and a home provider, a 91-year-old frail elderly gentleman. Prior to the home sharing match he had frequented the emergency room and occupied a hospital bed on several occasions because of dehydration and malnutrition. Over a period of one year, the elderly man singlehandedly ran up a hospital bill of over \$102,000 actual cost to the Ministry of Health during two admissions within a year. Following his second admission, the placement coordination services had recommended nursing home placement. Had he been admitted to a nursing home, the annual estimated government contribution would then have been approximately \$13,939 based on 1990-91 dollars.

At home the elderly man required the maximum of home care services: a VON nurse twice a week, 40 hours a month of government homemaking services, frequent visits, almost weekly, by a home care social worker. He was using most of his limited pensions on another 40 hours a month of private homemaking services. He also had a power of attorney, a volunteer from his church and a lawyer trying to sort out his affairs. The social worker and the lawyer referred him to the VON Home Sharing Program. A suitable home sharing family was found for the frail man. The new home sharers helped to maintain the health status of the elderly man. They ensured that the elderly man ate regularly and took his medications, and they provided companionship for him.

Since the home sharing match in January 1990, the elderly man has broken his pattern of frequent hospitalization for dehydration and malnutrition. Home sharing has prevented institutionalization for this elderly man and has saved provincial government contributions on his behalf.

Home sharing has also helped this young family, which was in need of safe, affordable housing. With minimal income, the family was limited in what they could afford to rent. As the recession continued, the young family found themselves without financial resources. Through the support of general welfare assistance, the family was able to access the needed support. Their shelter costs, through home sharing, were reduced, a saving to the social assistance system totalling \$5,640 over a one-year period.

Home sharing offers ongoing savings to both the health and social service system in this single home sharing match. This is just a sample of one match out of the required 35 matches a year that each of the 17 home sharing programs facilitates throughout the year across the province. The cost savings provided by this program throughout the province must not be overlooked.

Home sharing offers a supportive housing alternative to marginalized individuals in the community. The program

allows for creative solutions to assist in housing persons with special needs.

In many other home sharing matches, the support of a home sharer assisting a frail, elderly person reduces the stress upon family care givers, neighbourhoods and other informal support systems.

The cost to the government to build one non-profit housing unit is \$10,000. A hospital bed costs approximately \$745 a day. A bed in a nursing home or home for the aged ranges from \$745 to \$1,441 a month. A bed in a hostel costs \$24 a day in subsidies. Beds in women's shelters and second-level lodging houses are up to \$31 a day. Through the continued matching service for special-needs populations, the 17 home sharing offices across the province save millions of provincial government dollars. For approximately \$900,000 a year, the Ministry of Housing must continue to fund this cost-effective, community-based, innovative housing program.

Mrs Lerner: Thank you for the opportunity to speak with you today. I will be speaking to items 4 through 7 on the agenda.

Home sharing offers a screening and matching service for those interest in shared accommodation. Home sharing programs link closely with a wide variety of social agencies, including access to permanent housing programs, community health and counselling services, battered women's shelters, multicultural services and community legal clinics. For matched home sharing clients, the program offers mediation services for difficult issues that may arise. Life-skills counselling and support is provided to special-needs clients. A follow-up service maintains contact with matched clients to ensure the continuation of a successful match. Information is also provided on the Landlord and Tenant Act and on income tax implications for individuals on fixed incomes.

Home sharing assists low-income and homeless persons who do not have the language or the life skills to work through the bureaucracy of the social housing system or the private rental market. Homeless clients matched through home sharing benefit through reintegrating into their communities where they may have previously been marginalized through extended and expensive stays in hostels or hospitals. Many low-income individuals are eager to use the services of home sharing programs as they are not seen to have the stigma of a social assistance program.

Home sharing is very much in line with the goals of the provincial government's public consultation paper entitled *Redirection of Long-Term Care and Support Services in Ontario*. An objective we both share is maintaining people in their own communities through supportive housing initiatives.

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Home sharing facilitates housing intensification. We would like to define housing intensification as the utilization of existing housing stock to maximum effectiveness.

Originally the home sharing program appealed to the Ministry of Housing as it promotes the better use of existing housing stock. As of 1981, the Ministry of Housing estimated that 28% of residential units in the province

were underutilized. This amounts to over 850,000 dwellings. These dwellings were thought to lend themselves to intensification programs such as home sharing.

Through home sharing, additional units of affordable rental housing can be created at very little cost to home owners and to governments since these units already exist and are ready for use. Ministry of Housing statistics of 1988 show that 53% of home sharing cases in Ontario involved accommodation on the market for the first time. In Scarborough, 41% are units being provided for the first time and 79% are units not advertised elsewhere.

One important fact behind these figures is that 54% of our providers are single females or single-parent females who use the service exclusively because of risks entailed in advertising in newspapers or through other public means. Much of this housing stock would disappear without the home sharing program. This is quality housing stock for the clients we serve, not just affordable housing but supportive housing. In many situations, landlords have become like second families to their tenants.

As a Scarborough Board of Education social worker, I can say that a majority of older adolescents I refer for home sharing are victims of family violence or incest. The supportive environment is crucial to their remaining in school and to their psychosocial functioning. The fact that the Scarborough housing registry is utilized by over 90% of secondary school counsellors adds further evidence of this need.

We again want to emphasize that home sharing results in better housing and better communities. In addition, many of the providers are now part of a permanent roster of landlords who have been renting through the programs for several years. In this sense the home sharing programs have developed a new type of permanent accommodation previously not accessible.

We have also found that our community education initiatives provide a soft, non-threatening way of introducing the ideas of housing intensification to communities. This lessens the effect of the not-in-my-backyard syndrome.

Let's now turn to concerns about future funding. The ongoing publicity about the provincial government's deficit and the Treasurer's concern to keep the deficit under control has necessitated concerns among Ontario home sharing programs. The Treasurer has requested each of the ministries to cut base-funded programs in order to control government spending. As home sharing has been funded by the Ministry of Housing through surplus dollars, we are extremely concerned about the future funding for this program. Surplus-funded programs are always vulnerable during budget cuts.

It is for this reason we have come to speak to you today. If these proposed cuts become reality, what will happen to this innovative, cost-effective, community-based program? We are not questioning the necessity of cuts or tough decisions. However, given the present government's grass-roots style and philosophy of helping the most needy, we are greatly distressed by the potential elimination of a program which effectively serves special-needs populations, including the working poor seeking safe, affordable

accommodation, and the providers at risk of losing their homes due to the recession.

This kind of uncertainty affects the essence of our matching service, which is built on the trusting relationship established between the agencies and their clients. At the moment we cannot maintain that trust with any degree of certainty or confidence. The demand for service is for ever rising as news of our successful matches become public. As a result, there is great concern on the part of the needy in the community and their referral agencies about the threatened cuts. With only 49 days left before the new fiscal year begins, it is critical that we know when a final decision will be forthcoming.

The Coalition of Ontario Homesharing Program Coordinators can run an effective service within the present ministry guidelines. We are asking to be saved from the budget-trimming. We would like to offer two specific recommendations for your consideration at this time, (1) that the Ministry of Housing continue to work in partnership with the Ontario home sharing program, and (2) that the Ministry of Housing provide base funding for the Ontario home sharing program for a minimum of five years, at a cost of approximately \$900,000 per year, including cost-of-living factors, in support of the 17 home sharing programs across the province. I would like to thank you for the opportunity of allowing us to present our concerns to you today.

Ms Bowlby: In the next segment of our presentation today I guess we wanted to share with you the input from community members. You will note that both of these individuals are members of advisory committees of various home sharing programs across the province. As well, we would like to invite some consumers of the program who have had personal experience to share with you their concerns about the program and their own personal experiences of the program. I would like to invite Carmen Muir, Dorothy Ohl and Jose Valle to come up, please.

The Chair: Before you start speaking, could you identify yourself, please, for the purposes of Hansard?

Mrs Muir: My name is Carmen Muir. I live in Scarborough. I am renting to a 16-year-old girl. Her mother died and she wanted a home to live in. She is staying with her grandmother now and her grandmother is unable to look after her, so I am asking you please to continue the home sharing because it is very useful to me and also the girl.

Mr Valle: My name is Jose Valle and I am a newcomer here in Canada. I get a place through the home sharing program in Scarborough and I am going to talk about this later.

Mrs Ohl: I am Dorothy Ohl from Scarborough. Sharing has been wonderful for me. For two and a half years I have had a lady staying with me and it has meant that it is easy for me to keep my own home. In 1990 I was sick off and on for nearly a year, but because she was there, I could come directly home from the hospital and we managed. Also, my house has grown old with me. We are at the stage where the roof and the plumbing and the appliances all need attention or replacement. The income I thought was more than adequate when I retired has shrunk with inflation. Now it will shrink more with lower interest rates, and

with the rent coming in, I do not have to worry. I might have been able to find someone myself, but it would have been risky. It is not safe for seniors to advertise living space. We should not let strangers into the house and we should not let the world know we are living alone. Also, it has been wonderful to have the company. We get along fine, play bridge, belong to the same clubs, and I am very thankful to Sharing.

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Mr Valle: I am a newcomer here. I am a refugee from El Salvador and I came here to Canada over a year ago. When I came here, I found myself in a very difficult situation. I was on welfare, but welfare was not giving me enough money to rent self-contained accommodation. I did not have any place to go, so I found out about the home sharing program and I went to the Scarborough Housing Help Centre. They helped me out to find a place to live. I went to the place and I am still living there and I have to say it is a great place. I have learned many things about the Canadian customs with them. Also I have improved my English with them because they are a Canadian family.

I became a volunteer at the home sharing office because I would like to help as well as they helped me before. So right now I am helping out the community and I am trying to give them peer support in all the things I can do for them. Let me tell you that working there has been a great experience for me.

I can say that the problem of the community is the affordability of housing, mostly for the persons who are on welfare and do not have enough money to pay for self-contained accommodation. They have to go through the home sharing, as the lady says, and also for their safety.

I recommend it because of my own experience with home sharing. Because I am leaving that, I have to say the home sharing is great and there has to be funding in order to help all the newcomers who are here. They need our help. I recommend that the home sharing program must continue, because they are helping us to integrate into the Canadian society. This is the other part of home sharing, the integration into Canadian customs and a Canadian family and Canadian society and there is someone who is teaching us how to take the TTC, because when we come here we do not know anything about that, and it is great to live with a Canadian family.

The Chair: Thank you. Many of us are quite familiar with your appearance before the committee last year, but there are some members of the three caucuses who would like to have some questions, and the first one is Mr White.

Mr White: I am of course very impressed with your presentation. It is marvellous to see so many people and working so well in unison, which I am sure speaks of your program as well. It is a very innovative and sensitive program and I think, as you are suggesting, on a dollar level very effective. Do you have any idea of the total number in the province who have been served through this?

Ms Bowlby: In terms of the total number for 1991, the statistics have not been completed yet. I was speaking with the Ministry of Housing office and it does not have

all our figures in at this point, or does not have it all collated, but in the previous year I believe we made over 850 matches collectively in all of the 17 programs. That 850 is just the match; we are not counting the number of people involved in the match, which can double or sometimes be a much larger number than that, simply because we are often matching single moms or young families in homes.

Mr Kwinter: I want to commend you on your program. I think it is an excellent program and I hope you continue to get funded. I just have a question that bothers me, as a former real estate person. How does zoning affect the home sharing program? If you are in an R1 zoning, do you have any problems with municipal authorities on that?

Ms Bowlby: I might have to refer your question to a Toronto coordinator, simply because zoning has not appeared to be an issue in Hamilton-Wentworth, which is the program I operate.

Ms Chan: My name is Christine Chan and I am from the Scarborough Housing Help Centre. Zoning usually has not been an issue because most municipalities allow for two unrelated persons to be living in a home and usually we do not get into matches that are people renting out more than two rooms. Most municipalities are very supportive of the program. A number of the municipalities have written the home sharing program into their municipal housing statements. My experience in Scarborough has been that the municipality is very supportive of the program. Zoning has not been an issue because we are not in the business of rooming houses or lodging houses or anything like that.

The Chair: One short one, Mr Phillips.

Mr Phillips: I know first hand of the good stuff you do in Scarborough, but I am actually surprised there are not more. From the phone calls we get to our constituency office, there are just thousands of people looking for space. Is the challenge finding people who are prepared to share their accommodation? Is that where the need is, to find more people who are prepared to share, as opposed to people who are looking for accommodation?

Ms Bowlby: I believe, according to the global statistics from our program last year, the provincial program, we actually had more seekers than home providers. Our numbers maybe reflect the fact that what we are doing is a unique service in matching individuals. It is not a strict rental situation where you pay your money and you get your space, but rather we are trying to match people for compatibility issues and lifestyles, so that takes a little bit longer.

Mrs Beange: I would like to speak to that too, if I might. For some time we have been saying that it is the role for a senior level of government to promote the issue of home sharing in the same way that McDonald's promotes hamburgers, just so that it becomes a household word.

A lot of people have not thought about home sharing. They still have reservations. If there were a very effective province-wide program developed—not the kind of static advertising that you see in the newspaper from time to time that is paid for at great expense by the province. It did

not happen last year, but there has been an ongoing one. If the province would recognize that there is a role for this and really develop it in an effective way, I think the home sharing program would grow by leaps and bounds. More people would be accepting of it. It would be something they could do.

Mr Phillips: Can I just make a suggestion? Most of us send out what we call householders. In mine I try to inform the community of services that are available. I have your phone number in there but I am not sure I have a description of the service. You might consider letting each of the MPPs know about the service. That is a service we can do for you and for the community. Sorry, Mr Chairman, that is a side issue, a suggestion to your group.

Mrs Beange: It is a concept that needs to be sold, though.

Ms Bowlby: Thank you, Mr Phillips. We will pass that message along to our colleagues in the program.

Mr Jackson: I had the opportunity to raise this issue on two separate occasions in the House when we were coming to the end of the annual funding for this program. I would like to underscore for the committee members consideration of their second recommendation, which talks about a five-year program, because they are going to be here every year trying to justify their existence unless we respectfully recommend in our report that this is a program of long duration with a future in this province. It is on that point, Christine, that I want to raise a concern.

When I raised this with the Minister of Housing, I also asked the minister responsible for seniors' issues and the Minister of Community and Social Services for their response and their support because of the social nature of the matching and because of the benefits to taxpayers and relief from other programs.

I want you to comment on the new directions for long-term care, because it is almost silent—not completely silent—on the issue of housing and affordability. It is built on the presumption that our seniors are going to be able to have less dependence on institutions, therefore it works on this great presumption that they will be cared for in their homes and that they will be able to live in their homes and afford to be in their homes.

In my view this program fits so perfectly as a foundation stone in that vision—which all three political parties support, incidentally—and it is wrong that we have to wait three years for long-term care funding. You are left here, cap in hand, literally begging that we do not close down your program when in fact we rely on your program to meet our needs, as politicians, to change the direction of long-term care.

I would like you to comment on that because I think your concerns are unaddressed in the long-term debate. There is a gap in planning and funding until 1993. Could you comment specifically on that?

Ms Bowlby: The Ontario home sharing program is currently funded by the Ministry of Housing, and so it is through the Ministry of Housing that we want to continue our partnership until such time as the long-term care redirection program gets itself up and running and functioning.

Certainly the segment in that public consultation paper regarding supportive housing, home sharing can provide a supportive living situation for individuals to help them maintain their independence in the community. I think a number of home sharing programs provide feedback to the new division of community health and support services, regarding home sharing as a housing option for seniors and disabled. But at this time, again, our funding comes through Ministry of Housing and we need to confirm that funding and that is what we are asking for today. We are looking for support in that direction today.

Mr Jackson: Thank you. I wish we had more time, Mr Chair.

The Chair: The clock has run out. I know this home sharing was developed in the Niagara area, where I am from, and I am well aware of your program as are I think a lot of my other colleagues in this room. I would like to thank you for appearing before this committee, for your ideas and your thoughts, and requests will be put in the brief that we will be preparing.

Ms Bowlby: Thank you very much for the opportunity.

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ONTARIO TRUCKING ASSOCIATION

The Chair: I would like to call on the next group, the Ontario Trucking Association. I would like to welcome you to the committee. Would you identify yourself for the purposes of Hansard and then begin your presentation. We will have until 20 after 3.

Mr Bradley: Thank you. I am David Bradley, president of the Ontario Trucking Association. I have an uncanny ability to clear a room and it seems that I have not lost my touch.

I would just like to say before I start that today I am representing the Ontario Trucking Association, but I am also supported by a number of other groups within the trucking industry, including the major associations of independent owner-operators and the unions. I will deposit with you, at the end of my remarks, letters of support for our submission from the Com Car Owner Operators' Association, from the Canadian Conference of Teamsters, the Canadian Brotherhood of Railway, Transport and General Workers and from the Transportation and Commercial Workers' Union.

OTA is pleased to have this opportunity to participate in the consultation process established for the 1992 Ontario budget. This will be an extremely important budget in terms of establishing the economic path for Ontario. Domestic, global, economic and social forces are contributing to a major restructuring of economic activity in the province. How we adapt to changing trading relationships and patterns and embrace technological innovation, foster human capital investment and restore the confidence of investors and consumers will determine whether we will compete and succeed into the next century.

Ensuring economic revitalization and renewal in Ontario depends on how well all stakeholders—industry, government and labour—respond to the challenges posed by the irreversible forces of change that confront us.

OTA is fully aware of the gravity of the fiscal situation that currently grips the province. While we may not be comfortable with the present state of the provincial finances and while we may not always agree with other stakeholders on some of the specific actions that have either contributed to or attempted to address the fiscal imbalance, including the 31% increase in the provincial tax on diesel fuel introduced in last year's budget, we recognize the pressures on government and we also recognize that difficult choices must be made. As a province we must demonstrate fiscal responsibility, but we must also respond positively to the economic malaise that confronts us. Balancing these two concerns obviously can be difficult. However, we do not feel that it is an either/or situation. We cannot place ourselves in a fiscal straitjacket while the economy continues to stagnate.

We must find ways to spend more wisely. That might mean spending more on some things and less on others. Also, we do not feel that there is any scope left for further tax increases. Consumers and businesses quite simply have had enough. Instead, governments should be attempting to provide incentive and encouragement to stimulate consumer spending, business investment in plant and equipment and taxable income. The tax base is already broad enough and tax rates high enough or too high.

Our recommendations for the 1992 budget have their basis in two principles. First, the prospects for renewal of the Ontario trucking industry are indelibly linked to the prospects of the Ontario economy as a whole. Trucking is a derived demand industry. Consequently, the level of trucking activity in the province is a reflection of overall economic activity. Second, it is also true that economic revitalization and renewal in Ontario requires the existence of a stable, viable, productive and efficient transportation industry, particularly a healthy and viable domestic trucking industry.

The Ontario economy depends on the trucking industry to get goods to market not only within Ontario but also within Canada, and to export markets, particularly in the United States. Trucking is the dominant mode of freight transportation for goods movement into, out of and within Ontario. The industry employs about 4% of the provincial labour force. Trucks haul about 70% of total freight in the province, including 80% to 90% of all consumer products and foodstuffs. In addition, trucks haul about 75% of the province's exports to the US and 80% of imports from the US.

The province's shippers and manufacturers, many operating with just-in-time operating systems, depend on trucking to provide the flexible, efficient and safe service they need and at a price which enhances their ability to compete in the global marketplace. The ongoing plight of the Ontario trucking industry should by now be well known. The industry has been wracked by deregulation, recession and higher taxes. This has led to a deterioration in the industry's financial performance reflected by record levels of bankruptcies, thin or non-existent profit margins and thousands of job losses. It has been estimated by a government of Ontario study that Ontario-based transborder motor carriers face a

cost disadvantage that can run in excess of 20% compared to their US competition.

In recognizing the interdependence of prospects for renewal of both the economy and the trucking industry, we believe the specific budget measures should have the following objectives:

They must build confidence. Economic recovery requires the participation of investors and consumers. To date, recovery has been hampered by a lack of confidence.

Budget measures must improve competitiveness. The Ontario economy and the Ontario trucking industry now, as never before, operate in a global marketplace. We must be competitive if we are to maintain and create jobs and maintain and improve our standard of living. We are a trading province. We must ensure that we have the resources, the skills and the technology needed to compete. Governments must work with industry in getting there.

Being competitive also means being as productive as we can be. In industry we need to close the productivity gap we may have with some of our competitors. We need to invest in human capital and technology. We need to provide the appropriate incentives to our managers and workers. We need to cooperate. We need to embrace new technologies and systems. We know this in business. As truckers we are very aware of the need to continually improve our productivity or be left behind. Again, government can work with us to assist in becoming more productive.

Budget measures must promote social responsibility. Government policies and business strategies have to be socially responsible, and we recognize that.

We believe that by introducing measures consistent with meeting these objectives, the 1992 budget would create the basis for expectations of increased job creation and economic circumstances that would better enable the province to meet its financial obligations and provide the services that Ontarians need and have come to expect. Here is what we recommend:

We ask that the provincial government roll back the 31% increase in the provincial tax on diesel fuel introduced in two stages since last spring's budget. Ontario's provincial diesel fuel tax rate of 14.3 cents a litre is the third-highest rate in all of North America. It is visiting severe hardship on trucking companies and individual owner-operators by adding about \$2,000 a year to the cost of operating a truck, without any recognition that profits in the industry are thin or non-existent.

Trucking services are not a luxury. They are not discretionary. Shippers and manufacturers cannot decide to walk or bicycle their products to market. We have never understood why diesel fuel taxes should be lumped in with other sin taxes. We do not understand, further, why trucking does not qualify for the rebates from fuel tax granted to other industrial, commercial and institutional purchases. It should not be a convenient cash cow for propping up government revenues. The Treasurer's recently released fiscal outlook highlights the fact that the provincial diesel fuel tax rate has increased by over 44% over the last six years, with most of that increase coming in last year's budget alone.

At the time of its announcement, the diesel fuel tax increase was justified on fuel efficiency and environmental grounds. Over the last year, OTA has gone to great lengths to demonstrate that the fuel tax increase actually impedes environmental enhancement. The fuel tax increase simply makes it that much harder and postpones further the re-equipping of the Ontario truck fleet. So Ontario is not benefiting from currently available truck technology that would, in addition to improving productivity and efficiency, impact positively on the environment.

In 1991, the Ontario trucking competitiveness study conducted by the Ministry of Transportation, in conjunction with the Ministry of Treasury and Economics and the Ministry of Industry, Trade and Technology, concluded that Ontario-based trucking companies are at a significant disadvantage in terms of fuel costs. Nevertheless, some will still argue that the fuel tax increase does not have a negative impact on the competitiveness of the Ontario trucking industry because US carriers pay the same tax when operating in Ontario. This is somewhat naïve.

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The assertion does not take account of the differential in fuel taxes paid by Ontario versus US carriers on their domestic operations. Fuel taxes are about one half to one third the Ontario rates in many states which are competitors of Ontario, and the base price of fuel is also cheaper. Overall, it can be argued that lower fuel costs in taxes in the US contribute to higher profitability in US companies, better enabling them to purchase newer equipment more frequently. At the same time, the Ontario fleet is aging, leading to relatively greater maintenance costs and lower efficiency.

Moreover, commercial fuel taxes are a tax on distance. Manufacturers, shippers and consumers from those communities situated furthest from major markets are hit the hardest. We recommend that Ontario revisit its decisions to increase the diesel fuel tax and roll back the tax to its pre-1991 budget level of 10.9 cents per litre. At this rate, the tax would still make a sizeable contribution to provincial revenues while providing a much-needed boost to the trucking community.

As I have mentioned, the Ontario truck fleet is generally of about mid-1980s vintage. The Ontario trucking competitiveness study challenged our industry to become more efficient and more productive. It also recommended three approaches that the government should consider taking to encourage and assist the industry in using more modern equipment and reducing the relatively high cost of repairs and maintenance in Ontario as compared to the US.

It suggested that the government could do three things. First, it could provide an incentive such as an investment tax credit to reduce the effective cost of new equipment.

Second, it could match or surpass the accelerated depreciation rate allowances available to US carriers on tractors and trailers. Recently, the federal government did accelerate the depreciation rates for tractors to a point where the rate is now approximately halfway between where we were and where the Americans are. Ontario is compelled to at least match the federal initiative. However, it would be in Ontario's interest to accelerate the depreciation rates

on both tractors and trailers provincially so that they are at least equal with the rates existing in the United States and that the new rates for 1992 and beyond be applied to both presently owned and new equipment.

Third, it was suggested that the provincial sales tax on trucking equipment, as well as the sales tax on repair and maintenance labour, be reduced or eliminated. A temporary sales tax has been used as a way to stimulate demand for automotive and trucking equipment in Ontario during previous periods of recession. Moreover, about one half of all individual US states provide exemptions from state sales taxes for heavy trucks and trailers, and most exempt labour for repairs and maintenance from sales tax. In addition, in the United States trucking companies can base-plate their equipment in jurisdictions that are sales tax exempt. Now that Quebec is moving to a harmonized sales tax/GST system, sales tax on trucking equipment purchased in that province will be eligible for credit.

We are also recommending that the government of Ontario increase investment in roads and highways. At one time Ontario had a competitive advantage over most of its competitor jurisdictions with respect to its highway infrastructure. However, after years of neglect and inadequate expansion, that is no longer the case. Major initiatives, such as the much-needed Highway 407, are proceeding at an extremely slow pace.

An investment in the highway infrastructure will help to improve Ontario's competitive position and accommodate future population growth. In his recent \$1.2-million study for the Business Council on National Issues and the federal government on the competitiveness of the Canadian economy, Harvard professor Michael Porter pointed to the need for an improved infrastructure in Canada, including highways.

Last month in his address on the Ontario economy, the Premier said he intended to tell the Prime Minister that investment in capital projects is needed now and that Ontario would match any federal contribution dollar for dollar. It is true that the federal government presently spends virtually none of the money it raises from road-related taxes, such as the four-cents-per-litre federal excise tax on diesel fuel, on roads and highways. This is a vastly different situation from that which exists in the United States, where the US federal government puts most of what it raises from federal fuel taxes back into the highway system.

However, the Premier was silent on whether he was prepared to invest in infrastructure if the federal government did not agree to joint funding. We think he should and that the money should be raised from current revenues without further tax increases. Ontario already raises more from road-related taxes than it spends on roads and highways.

In the 1989 Ontario budget, a new tax of \$5 was introduced on the purchase of each new pneumatic tire in the province. Revenues from this tax were specifically earmarked to be spent on resolving the tire disposal problem. This has not happened. The Ontario Scrap Tire Task Force, of which OTA was a member, was a dismal failure. It is reported that only \$5 million of the \$80 million raised so far from the tax has been spent on tire recycling or disposal.

OTA members find it absolutely offensive to have to pay the tax and then to have to pay an addition \$5 to \$12 per tire to have scrap tires taken away to dump sites. We recommend that the Ontario tire tax be eliminated or, at the very least, that the commercial truck tires be exempted, as are tires for commercial airplanes, production machinery and farm equipment. Eliminating the tax would assist in stimulating the purchase of new tires, which would also have a positive economic and safety impact.

We have said that there is no scope for further tax increases by the provincial government. This includes increases in payroll taxes or the introduction of new payroll taxes. We note that the federal government, following a meeting in December of last year of federal and provincial finance ministers, agreed to delay the implementation of the 1991 federal budget proposals to limit the deductibility of provincial capital and payroll taxes by one year. This was a welcome announcement and we certainly appreciated the efforts of the provincial ministers. We encourage the Ontario government to continue to resist the federal budget proposals beyond this year.

Many of the trucking-specific measures we are proposing are, sadly, unfinished business. Over the past year, OTA has worked closely with a number of ministries in developing an assistance package for truckers. To date, no announcement has been forthcoming from the government of Ontario, despite the fact that all the necessary studies are complete. The federal government has announced its assistance package, and the industry has been assured that something is in the offing. OTA, which has represented the industry's views, we think in a thoughtful, reasonable and cooperative way compared to some others, feels that an answer is long overdue and that the industry deserves to know what the results of these cooperative efforts will be.

Ontario faces enormous challenges, but we believe that we have the people, the resources and the will to enter into a new age of prosperity. It will take a lot of effort, a lot of cooperation and many initiatives that fall outside the budget process. For example, a revitalization program for the trucking industry should include joint cooperation in the development of training programs, amendments to the Truck Transportation Act to ensure that the legislation meets its stated objectives and the introduction of new equipment standards in Ontario to allow for a 25-metre overall tractor-trailer length and the controlled use of longer combination vehicles, which would enhance further the productivity, efficiency, safety and environmental performance of the industry and dismantle a major barrier to interprovincial trade. However, the measures we are proposing form the basis, we think, for stimulating economic activity in this province, and from which the trucking industry can rise again to play its essential role in the restructuring and revitalization of the Ontario economy. We simply have to get Ontario moving again.

I thank you and I would welcome any questions that you might have.

Mr Phillips: In terms of the actual job losses in the sector, the last time I looked, transportation probably had the largest job loss, as a percentage, of any sector. Is that starting to turn around at all now or are we still seeing it?

Mr Bradley: I think it has been overtaken perhaps by the retail sector, but it has not slowed down, so far as I can see at least, in the trucking industry. I guess about six months ago we thought perhaps we had hit bottom and that things were going to start to turn around. But I can tell you today in talking to members, if there was any question of a double dip, certainly our industry, which is often a good leading indicator, would suggest to us that in fact we have taken a downturn again. We are seeing further rationalization in the existing companies, and I can tell you that there are a number of major employers right now that are hanging by a thread. While we certainly hope it does not happen, it would not surprise us to see further bankruptcies over the course of the next several months.

As well, the spate of mergers and acquisitions that have been happening within the industry, which also contribute to further rationalization, has been continuing. Just last week again there was another major announcement of a selloff of major portions of Canada Transport out of Belleville, so, really, the trend has not changed significantly enough for us to say that we are now coming out of this.

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Mr Phillips: How much of that is attributable to a downturn of the economy and how much is attributable to competition from outside Ontario?

Mr Bradley: It is hard to separate the two. I guess the best way I can answer it is, as we have been telling this committee and others for the last couple of years, we started down this road before the recession hit. We started to see the incursion of US-based carriers. We started to see the bloodletting with deregulation prior to the onset of the economic downturn, so we had a supply-side shock first. With the recession, we have now had the demand side and we are getting a double whammy.

But in order to separate the two, it is difficult to say. Certainly, though, there have been significant job losses strictly as a result of the impact of deregulation, exposing our competitive disadvantage to US competition.

Mr Kwinter: Last year, we had groups appearing before this committee complaining about the effects on cross-border shopping and your industry because of the increase in tax last year, and instead of reducing it, with the same calls for a rollback, the government increased it. My prediction is that the same thing is going to happen this year. The Treasurer has already announced that he has lots of problems, that he needs to raise revenue. What impact would that have? You are complaining now that it is dealing you a body blow. What would be the impact of a further increase?

Mr Bradley: Well, it would have a disastrous impact. People are already just waiting to see what the impact of the second round of fuel tax increases that came in on January 1 is going to be. Any further increases would be disastrous.

It literally boggled our mind last April when the first round of increases were announced. As you say, we had been warning people and we thought everyone knew the problem our industry was in, but I guess it comes down to

how one views commercial fuel. Is it an input into the production process or is it a sin tax? I am afraid that governments at both levels have viewed it as a handy way to pick the pocket of motorists and try to maintain their expenditures. I would say that it just does not work with an industry like trucking.

Fuel tax bears no relationship to profitability. Shudder the thought, but at least for an increased corporate tax there has to be something to tax. Here they can just tax it, and we have no ability whatsoever to pass those costs along to our customers.

Mrs Y. O'Neill: I was very interested in the bankruptcies. I presume these are basically the smaller companies that have consolidated. Can you say a little bit about your notes?

Mr Bradley: Yes. The lion's share of the bankruptcies, which have been at record levels in the last two years, have been among owner-operators, single operators: one person, one truck. There is no doubt about it. But further down on the page, if you move to note 3, I do highlight some of the major, larger-sized employers that have gone bankrupt within the last 18 months and the job losses associated with those. So while most of the bankruptcies themselves have been among the one-man, one-truck operations, you can see that the bankruptcies in the Ontario industry have had an enormous impact on employment. The rule of thumb that we use in the industry is that for every trucking job, there are three jobs in the supplier industries, the people who sell us fuel or the hardboards for the trailers and those kinds of things.

Mrs Y. O'Neill: I think what is so difficult is what you say, that there was an opportunity, when things were really changing and you were getting the double whammy, not to implement the second stage of the 1991 budget on January 1. But all the requests have gone unanswered and that is very discouraging for those of us who, I think, have some appreciation of what you are saying.

The Vice-Chair: I am sorry, Mrs O'Neill. I have to move on. Mr Carr.

Mr Carr: I appreciate your coming here. I know a little about the industry; I worked for TNT Alltrans for at least a couple of years. I fortunately got out before they went down. They were one of the victims.

Mr Bradley: One of the earliest ones.

Mr Carr: One of the earliest victims. As a matter of fact, it was after I had just left that they went down—no relation, I hope. I know the industry very well. All the pressures are out there. As you know, there is the WCB, because that is an industry which has historically has had a high number of WCB claims as well.

I just want to find out from you what your sense is now, because you have been very active in trying to make your views known to the government. Do you see any changes coming? Do you think you are being listened to? Again, in the last budget obviously you did not. Do you see any movement on the government's behalf of starting to recognize it, or is it still the same old story?

Mr Bradley: There has been a lot of concern demonstrated, a lot of what I would consider fruitful and productive meetings since last spring, but as yet there has not been an announcement. Our expectations on several occasions were that something was going to happen, and I do not think our expectations were ever unrealistic in terms of what might or might not happen. As yet, the province, for whatever reason, has not come forward and come clean with the industry: "Look, we've been working cooperatively now for over a year. We've put a lot of time, effort, money, blood, sweat and tears into defining the problem and coming up with solutions. We've done all the studies one could possibly do on the industry. You have been dissected, cut every which way, and yet we do not have any answers."

That is really troubling to people who are making decisions as to whether they want to be around in another 30 days, and right now you might as well put your money in Canada savings bonds, in many instances, as opposed to in the trucking industry. But it is more than a job to most; it is their livelihood and what they want to do. They want to get a signal from people and some recognition that: "Yes. We've heard. We care. This is a vital industry and we're going to make some moves to keep you here." To date, there has not been anything specific.

Mr Carr: I will let Noble ask, and if there is any time I will—

Mr Villeneuve: Mr Bradley, thank you very much. Coming from Glengarry county, I know all about the GTL bankruptcy. You quote 600 jobs. I was led to believe it was considerably more than that.

Mr Bradley: The 600 are in Ontario. There are actually 1,300 if you include the Quebec operations.

Mr Villeneuve: Right. That is more like the figure I was familiar with.

How close are we to reaching the area of diminishing return by increasing taxation? I come from an area where some of my trucking friends with the big saddle tanks tell me they bobtail over to Akwesasne and save about \$250 on one fill-up, on just one fill-up. Whether it is legal, I do not know. People go and do it. I am trying to tell the government, "If you continue to chip away and put on higher taxes, how close are we to the point of inflection, of diminishing returns really setting in?" We may be there now.

Mr Bradley: We are past that. Anybody operating in the transborder market who is not now buying as much of his fuel as he can in the US is not going to be able to compete. Sadly, that is part of the motivation with the higher taxes and the cheaper fuel costs down there, to try and run as many of your miles as possible in the US and take advantage of the lower costs there.

It cuts several ways, not just on the fuel tax. If you look at the cost situation across the board, the government's own study said transborder carriers were at a disadvantage up to in excess of 20%. There are a lot of factors right now, unfortunately, motivating companies to look to the US if they are going to remain in business. They do not want to do that, but that is the reality of it. There have been lots of examples. One of the examples I have noted is Bill

Thompson Transport in St Thomas, which at one point employed over 500 people in that community and is now operating wholly out of Pontiac, Michigan. Time will tell how successful they will be down there, but these are the kinds of things they are being confronted with.

Mr Villeneuve: Another noteworthy fact in your presentation is that the trucking stock in Ontario basically dates back to the mid-1980s. Would that have any association with the removal or partial removal of the provincial sales tax at a particular point in time? I recall speaking to truckers at that time. A lot of trucks were on back order and that really stimulated the economy. I think we are going in the wrong direction here by continuing. Maybe you could expand on that a bit.

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Mr Bradley: Yes, back in 1981 or 1982 the government of the day did introduce a sales tax exemption on heavy trucks and trailers, and there was pent-up demand at that point. It did spur increased activity, increased purchases at that time, which was good not only for the trucking industry but maybe more so for the domestic manufacturers and distributors of trucking equipment. Unfortunately, in the last couple of years, when you look at the trailer side, for instance, there are now only two Canadian trailer manufacturers left in Canada whereas at one point there were a significant number. The barn door is almost closed now, but not quite. I think it would be a significant stimulative effect right now. It was brought in then as part of a broader measure on the whole automotive side, and maybe that should be explored again, but I can only speak to the trucking side.

The Chair: One more question.

Mr Villeneuve: Okay. If you were at the controls and were advising the Treasurer as he gets ready to prepare his budget, what would be number one? Is it fuel or a combination of things? It is going to be hard to convince this Treasurer that we have reached the point of inflection, where we are at a diminishing return. What is the first and foremost, most important thing in your mind?

Mr Bradley: Fuel would have the most immediate impact on the bottom line of trucking companies. No doubt about it. The sales tax exemption for those who were able to get into a position to purchase new equipment would be enormously helpful and would have a broader impact across the economy. But in terms of the trucking industry, fuel goes right to the bottom line.

Mr Johnson: I want to continue with regard to the liability of taxation. Fairly, I am sure you would agree, there are many factors that have contributed to a less than good, I guess—

Mr Bradley: It is terrible.

Mr Johnson: Okay. Well, let's just say that I am left with the impression—I want you to correct me; very seriously, I want you to correct me where I am wrong here—when I talk to people from the Ministry of Revenue that Ontario-based companies are not at a disadvantage when they operate in Ontario. They all pay the same tax. In fact, out-of-province carriers apparently have to stop and fill out

a card, and there is an expectation that if enforcement is taking place as it should, they too pay that premium for doing their business in Ontario. That suggests to me that indeed the playing field is level. Is that not the case?

Mr Bradley: Only on one level. Let's even assume right now that the enforcement net is strong enough that it catches everybody; I do not even want to get into that. Very few companies have purely transborder operations where you can make that argument and say, "When I'm operating in their jurisdiction I pay their tax, and when they're operating here they pay my tax." But yes, those are the rules when an American carrier, anybody, is operating here. They are supposed to pay the tax on a prorated basis, based on their mileage. But again, remember this: When that US carrier goes home, he goes home to New York or Michigan, or Mississippi or Arkansas, down in the panhandle. We come home to Mississauga and places like that where the tax differentials are significantly higher.

Let's take the fuel tax. I list some numbers in the back, but you can see that the fuel tax in Ontario is double or triple what it would be in the neighbouring US states. What that does is allow US carriers on their domestic operations to earn a higher rate of return and higher profits, which they are then able to plow back into newer, more efficient equipment, which they can then use on those transborder routes where they are now using 1990, 1991 equipment and competing with the poor Ontario trucker who is using 1984, 1985, 1986 type of equipment. That is where it has an impact. It is not as easy as saying, "Hey, when they're here they're supposed to pay our tax." That does not really get at the competitive issue, and it is sometimes difficult for people to understand.

Mr Johnson: The market is very competitive. I have no doubt about that. Certainly during difficult economic times the strongest survive and the weakest unfortunately do not. I think that in the United States the market is as competitive as it is in Ontario, and while they may have some advantages in the bottom line, you say, because of lower taxes that they pay on fuel, they are all paying those same lower taxes, so they are all fighting for that same profit.

You said something about not having the ability to pass on to your customers any increases whatsoever. That strikes me as being peculiar. I think that if everyone's costs went up equally, then they would pass on any increases equally to their customers.

Mr Bradley: Yes, they could. However, we are in a situation now of hyper-competition in the trucking industry. We have 25% to 30% excess capacity in the marketplace now. When you have that kind of hyper-competition, unfortunately there is always somebody out there who is on the brink of bankruptcy who wants to generate whatever revenue he can to try to partially cover some of his variable costs, and unfortunately he will do it. As a result, you cannot pass those costs along because there is someone waiting out there to say, "Oh, I'll cut the rate," or "I'll do it for X." That is the reality of the marketplace in trucking right now.

If we could simply take fuel taxes and pass them along to the customer, that might make everybody happy for the short term, but I tell you, it would not do anything for the competitiveness of the Ontario manufacturer and shipper who are trying to ship to the United States and compete in the global marketplace. I think that even in the short term that is really not a solution.

The kind of thing we are trying to do is to look for measures that will help us to lower our costs so that we can continue to offer the kinds of competitive rates we have been to manufacturers, because we recognize that they are having to compete with the Americans, the Japanese, the Germans and everybody else. Adding taxes and saying, "Pass them along," simply moves up the cost structure and makes us more and more uncompetitive.

Mr Johnson: You would leave me believing that—

The Chair: Paul, there are other members who—

Mr Johnson: Sorry.

Mr White: Thank you, Mr Bradley, for your excellent presentation. I certainly agree with you about the problems you have cited with the American truckers coming across the border, of course already loaded up with American fuel.

I understand from some truckers I know that deregulation in the province of Ontario is a bit of a one-sided effort. I think the idea was to have a level playing field with many of our exports across the border to the United States, but deregulation seems to be occurring here, creating a level playing field for Americans here in Ontario but not in Michigan or New York. I am wondering if you could comment on those problems.

Mr Bradley: It is true that at the time of deregulation in Canada, or at least in Ontario, we took deregulation one step further. In the US they have only deregulated their transborder marketplace. The individual US states remain regulated. It is very difficult for a Canadian operator or anyone to get a licence to operate within Michigan, New York and places like that.

We did take it one step further. We thought it was unbalanced at the time and still do, but again, we can try to address that. We now have a moratorium in Ontario, which means we have at least closed the barn door for now. The impact of that is questionable in terms of the damage that has already been done, but it was a significant gesture.

What we said at the time of deregulation, when it became clear to us that deregulation was going to fly, that we were not going to stop it, that the political trends at the time were blowing in that direction, was, "Before you expose us to this competition, you've got to recognize that our costs are higher here and that we have to have a level playing field," which I recognize has become an overused expression. But the fact of the matter is that we did not get a level playing field, and measures since, sadly more often than not, have moved even to tilt that further to our disadvantage.

Deregulation is more or less just the door opening. We can compete if we can get our costs down. The prospect of deregulation does not really concern us so much any more—that is done—but we have to try to find that level playing field somehow. That is going to take a change in

direction and a change in view in terms of how one taxes commercial diesel fuel, how one puts sales tax on maintenance and things like that here compared to our competition.

The Chair: Mr Bradley, I am glad you were able to put this submission in to our committee here. We will have it included in our submission to the Treasurer. Thank you for coming.

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ENERGY PROBE RESEARCH FOUNDATION

The Chair: The next group to come forward is Energy Probe. Sir, if you do not mind, identify yourself for the purposes of Hansard. We have 40 minutes, and in that period of time could you leave some time at the end for questions of the members of the committee here? You may start, and I would like to welcome you to this committee.

Mr Solomon: Thank you. I am Lawrence Solomon, with Energy Probe Research Foundation. I am grateful for the opportunity to take part in the committee's pre-budget consultation hearings, because this next budget is sure to be one of the most widely watched events in Ontario history.

This province, as all parties will acknowledge, is in economic difficulty, and no easy answers appear to be in the offing. I am coming here with some easy answers. I do not claim to have all the answers, but in one dominant area I do claim to have some easy answers.

My answers will help protect social programs while furthering economic needs. My answers will raise government tax revenues while lowering the deficit. They are sure to instil business confidence and promote domestic and foreign investment. They are so compelling that they have become commonplace around the world, in developed countries and underdeveloped ones, by socialist governments and by capitalist ones, by progressive-minded, pragmatic governments of all political stripes.

I have brought several Energy Probe studies with me which you should have before you. I ask you to turn to the largest one, the one entitled *The Worldwide Phenomenon of Electricity Sector Privatizations*. As you will see, these privatizations are occurring in varying degrees almost everywhere. I have brought a map to show you the change over time.

The area that you see in green shows decentralizing jurisdictions around the world. The area in red is the centralized jurisdictions; this is in the electricity sector. As you can see, in 1970 there is only one decentralizing spot, and that is West Germany. The rest of the western world was centralized. That is 1970.

By 1980 the United States had joined the trend, but still most of the western world remained centralized in the electricity sector: most of Europe, Australasia and Canada.

To turn to 1990, the situation is almost the reverse of 20 years earlier. Now most of the western world is decentralizing its electricity sectors. In Europe, only Ireland is maintaining the centralized system. Australasia is moving towards decentralized systems. In North America, it is starting to occur in Canada as well as in the United States from the west coast, and also now with the Nova Scotia privatization, from the east coast.

In some cases privatization has occurred because of ideology, and that certainly was a dominant factor in the case of Great Britain under Maggie Thatcher. In other cases, socialist parties such as the Spanish Workers' Party or the Australian or New Zealand Labour parties were the agents of change. In the US, President Jimmy Carter, a Democrat, was the progressive.

Electricity sector privatizations have one thing in common: They make sense regardless of your political orientation. They are happening around the world for the same reasons they should happen here: Governments need money for social programs; governments need money to reduce deficits or pay down their debts; governments want to restore their credit ratings; governments want to promote liquidity and equity markets; governments want to greatly expand and democratize the ownership of equity to broader segments of the public. There are two other reasons electricity sector privatizations should happen here: It would help protect the Ontario environment and it would lower the cost of power, which would promote jobs.

To give you an idea of what has been happening with Ontario electricity rates, I would like you to refer to another study before you, entitled *Cross-Border Electricity Rates: Ontario's Loss of Competitiveness*. I would ask you to turn to the first graph, which compares Toronto electricity rates to the US average.

Until 1978 the US and Ontario had very similar electricity structures, both being monopolized sectors. Some parts of the US, those with abundant hydro electricity, had lower-cost electricity than Ontario, but most US utilities charged more for their power than did Ontario Hydro because most did not have significant water resources. Overall, the US charged much more for power than did Ontario Hydro.

In 1978 the US federal government passed anti-monopoly legislation that affected all 50 US states. The monopoly utilities challenged this legislation in the courts and eventually lost when in the mid-1980s the United States Supreme Court ruled that the federal anti-monopoly legislation was constitutional. As a result, the utilities were forced to allow competition. The graph we are looking at shows the results. With competition now allowed, vast amounts of cheap and clean power began to flood the US market. Coal and nuclear power expansion from the utilities were stopped dead in their tracks. Replacing these expensive and environmentally damaging technologies were safer and more economic technologies: renewable technologies such as windmills, but most of all high-efficiency gas technologies. The economy was ahead and the environment was ahead.

Now let us look at that same graph to see what happened in Ontario over that same period, during which Ontario Hydro's monopoly powers remained intact. As you can see, Hydro's rates increased dramatically. They will need to continue their dramatic increase if the utility is to avoid taxpayer bailouts. If hydro rates are capped, as the Energy minister said he might do, the result can only be more debt, a rapid decline of the electricity system's reliability, or both.

Capping rates is not a responsible alternative, but doing what governments everywhere are doing, privatizing some of the electricity sector, would be highly responsible and would simultaneously solve numerous problems. I propose that Ontario Hydro, at least for the foreseeable future, maintain ownership of its very valuable transmission system, which is a natural monopoly, and that the transmission system maintain the debt incurred to build it. I would like Hydro to continue to manage the grid—no change there.

I also propose that the nuclear division of Ontario Hydro be segregated into a subsidiary called Ontario Nuclear, which would continue to be owned by Ontario Hydro. The debt incurred to build the nuclear plants would remain associated with the nuclear plants. The nuclear plants would be operated by the very same personnel who run them today; again, no real change here.

The change comes with Hydro's non-nuclear plants, which I propose be sold off to companies in the private sector. The plants could be organized into several electricity generating companies if sold through a public offering, as the Nova Scotia government is doing with its privatization of Nova Scotia Power Corp and as many other governments around the world have done. These plants would be sold with their associated debt and would fetch for Ontario taxpayers something in the area of \$15 billion to \$20 billion.

The \$15 billion need not come in all at once, either. Many governments are selling off their utilities in several tranches, and even then on the instalment plan. For example, in the UK only 60% of the government stake was sold, and then it was payable in two instalments over the course of two years. Spreading out the revenue is desirable because it does not overload the equity markets, and so keeps the value of the government's asset high while producing a continuing revenue stream for the government. The revenue stream does not end even after all the instalments are paid, because the new private sector companies have become taxpaying members of society.

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If just the non-nuclear stations were in the private sector, annual provincial income tax could come to \$500 million per year, quite apart from the economic growth and increased tax revenues that would flow from lower electricity rates. If all electricity were subject to the same taxes as any other business or commodity, billions in additional revenues would come into the provincial purse. Those revenues could be used to lower taxes for the rest of society, creating a more level playing field. They could be used to lower the deficit or the debt, reducing future interest payments. They could be used to finance our social safety net or they could be used for all three purposes.

How you choose to allocate those funds among those purposes is an area for legitimate disagreement, and I would be disappointed if the members around this room did not disagree strongly about what this province's spending priorities should be. But whether you choose to privatize some of the hydro system to give yourself the freedom to choose among those options should not be a matter of serious controversy for most fairminded people. Privatizing Hydro helps socialists be socialists and helps capitalists be

capitalists. Be yourselves, honourable members, and privatize Hydro.

Mr Carr: Thank you very much. I really enjoyed that very much. We obviously agree in a lot of areas with that. The problem is, however, that we also heard from a group earlier this morning, the day care workers, that instead of privatizing are going to non-profit and more government involvement. Also, you should know that Ontario Hydro is getting more involved in social policy with the Spruce Falls buyout and so on.

One thing that may—I hate to use this word—shock the Treasurer is if you could give us some idea of the numbers that you would be looking at, this revenue that he is desperately longing for in so many areas to avoid hospitals closing and so on. If Ontario Hydro were to be privatized—again, I know you have talked about phasing in—what would be the total income that we could get for the province? Any ballpark figure?

Mr Solomon: For the entire system?

Mr Carr: Yes.

Mr Solomon: Part of the problem is that the nuclear part of the system may not—

Mr Carr: The way you talked about doing it. The way you see it.

Mr Solomon: The way we talk about doing it, in the area of \$15 billion to \$20 billion would be available to the provincial purse.

Mr Carr: That is \$15 million to \$20 million?

Mr Solomon: Billion. That could come all at once. It probably would be preferable to spread it out over several years.

Mr Carr: Because you know what we are looking at is a total spending of \$53 billion, so basically, you would have one year's spending; again, depending how you spread it out.

Let me ask you this. The way Nova Scotia did it, did you like that? Do you see us using that model? Is there anything you would do differently for Ontario, as you suggest, for our way of doing things?

Mr Solomon: It is not clear exactly what Nova Scotia has done. I do not think we will know until the prospectus is out. But it appears they are maintaining the monopoly. They are converting a public monopoly into a private monopoly. There is very little benefit in that. That is not our goal. I think the Nova Scotia government was hamstrung because without the monopoly, there might have been no value at all in the Nova Scotia power system. So to get any value at all, they probably had to give those monopoly powers to the new owners. What I would hope the Nova Scotia government will do is put a subset on those monopoly powers, so that after five years perhaps the monopoly powers end.

Mr Carr: What companies do you see as being some that would jump in? Which ones come to mind that would be interested in looking at something like this? Are there any energy-related companies you think would like to jump in and purchase it? Would it be oil companies? What do you envision it being?

Mr Solomon: Well, I can tell you that Texaco is going to the UK to build private power plants since they have totally deregulated the UK system. Canadian Utilities Ltd from Alberta is also going to the UK. TransAlta is trying to build in Ontario. I think there will be no shortage of companies that will be interested in building. One of the main sources of new generation under a totally deregulated system will be from existing companies, from companies like Stelco Inc, Dow Chemical Canada Inc, Union Carbide Canada Ltd, companies that have existing operations but do not have the incentive to create as much power as they could for the entire system. If they did have that incentive, they would have a lucrative source of side revenue to support their main operation, so it could help keep those steel mills going and the other businesses going. As it is, they are hamstrung because they do not have the same opportunities that their competitors in the United States have to produce a product at an economical price.

Mr Carr: Just knowing the government like you do—because I agree—I think you have really come up with some good solutions. You have pointed out the fact that it does not matter about ideology. You have socialists doing it. What is your best guess of this government's intention with that? Notwithstanding the fact that I suspect if Floyd hears about \$53 billion, he may pick up and listen, do you think there is any chance of it happening during this government's mandate?

Mr Solomon: I certainly do. The government has in fact privatized SkyDome. The government has adopted our position in the case of British Gas, allowing the British Gas takeover of Consumers' Gas. I think this government is actually a very pragmatic government. In the past they have been interested in Energy Probe's proposals. I know they are interested this time. They do not agree just yet, but I hope they will.

Mr Carr: Keep working on it.

Mr Villeneuve: Cogeneration is very much in vogue right now and Ontario Hydro is very much involved, in that it would be purchasing. I gather you would suggest at this stage of the game that the cogenerator of non-utility power be the marketing agent of its own product through the Hydro grid. Would that be something you are looking at?

Mr Solomon: Exactly. We do not need generating utilities any more. In the United Kingdom there are no utilities generating power. Companies produce power for the system; they sell it to consumers. The consumers and producers get together. It is actually the very same system that has now been adopted in Ontario for the natural gas sector, where if you are a company or, in fact, even if you are a home owner, you can buy your gas directly from a Saskatchewan well.

Mr Villeneuve: I had occasion last summer to visit somewhere in the States where they were actually incinerating garbage, producing electricity rather efficiently. The tipping fee for garbage was somewhere in the area of \$40 per ton. Do you see that as a possible alternative? We were told by the generating agency that indeed there are no toxic effects, and we have been told by the present Minister of

the Environment that it will never happen under the auspices of this government. Could you give us your thoughts on that particular mode of generation?

Mr Solomon: There certainly are toxic effects. I do not see that being a major source of new generation because there is so much available power that is clean from other sources. But as the technology is improved, that certainly will be a sensible way of disposing of some forms of garbage.

Mr Sutherland: I do not know whether it is a good analogy or not, but one of the other monopolies that certainly exists is telephone and telecommunications in terms of long distance with Bell Canada, and there are some pushes on deregulation. For those of us who represent a rural riding like mine, there is a great deal of concern about that in terms of those that have had local calls free. Can you comment in terms of what are the costs for smaller users? For example, independent farmers: How do you view them fitting into this, and how would they be assured a continuous supply?

Mr Solomon: One of the ironies is that under a deregulated system farmers are among the main beneficiaries. In the UK for example, as soon as their Hydro went out of business and all kinds of small producers started to produce power for the marketplace, farmers turned out to be very large players, and they were large players for two reasons. One is that they often had available land in windy regimes which was not good for farming; it might have been up on a windy knoll—strong wind, underused. Those farmers are now doing one of two things. They are either putting up their own windmills, starting their own companies, or they are selling the rights to others to put up windmills on those sites. The very same thing has happened in California where farmers were among the big winners because of the wind regimes they had.

Also happening in the UK is that a lot of farm wastes turned out to be valuable fuels and farmers are using those fuels to generate power for the grid. The most recent example in the UK is a chicken farmer who has a huge amount of chicken manure and is using that manure to produce gas to run generators. He is getting something like 15 megawatts out. So there is a lot of power at the farm level. It should not be surprising, really, to us because we are talking about moving away from a centralized electricity production system to a decentralized electricity production system. We are going to find that in forest communities there is wood waste that could be used in the same way that in agricultural communities there are agricultural wastes.

Mr Sutherland: Outside of the Ontario Hydro proposal which you have focused on a great deal, do you have any other advice to the Treasurer on what measures he may take in the budget from an energy policy standpoint, overall?

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Mr Solomon: We would like to see a level playing field in the energy area. Electricity and natural gas have been exempted from provincial sales tax. We think fuels should be treated as a commodity the same as any other commodity. There should be provincial sales tax on those fuels. If the Treasurer wants to keep it revenue-neutral he

can lower the provincial sales tax rate, but there is no reason from an energy standpoint, an economic standpoint, or from an environmental standpoint to give a tax holiday to a commodity like energy.

Mr Sutherland: What about any proposals for alternative fuels, ethanol for example, or more use of propane, whether that be through tax incentives or financing through projects?

Mr Solomon: We do not like that approach because as a rule we have been very successful at picking the wrong technologies. Ten years ago we picked solar technologies when it was premature. Before that we picked nuclear. Before that we picked coal. Very often we make the wrong choices, whereas in a deregulated system the right choices are made. When they are wrong, they get squelched very early on before they have a chance to do a lot of damage.

Mr Johnson: Ontario has an updated plan now that shows us a different expectation for power generation and power demand over the next 25 years or so. Something they have advocated is the use of non-utility generation of electricity; that would be in a sense a component of hydro generation and yet maintain the grid—I am sure I heard you say that. But it sounds to me like you want them just to holus-bolus turn the whole thing over, except for the grid, to private concerns. Is that right? Do you not agree that this new plan leads in that direction?

Mr Solomon: No. This plan, I believe, is a continuation of the status quo and in some ways centralizes power even more strongly within Ontario Hydro. The independent power producers issue you raise is a very good issue because they have been the main losers from Ontario Hydro's update, because Ontario Hydro at any time was able to say: "This is how much power we need. This is how much power we are going to buy. The rest of you can go jump in the lake." We are going to end up in a situation where investors are insecure. Many of the independent power producers are at their wits' end. They have invested millions. They thought they had a deal with Hydro; they do not have a deal with Hydro. They are going to think twice before continuing to invest in this province. This is one of the very serious problems we have.

Mr Johnson: I just wanted to add that most of the non-utility generation that we expect in the future will be from cogeneration, which Mr Villeneuve talked about. This is one of those kinds of generation that can be brought on as demand requires it. Is this the sort of generation you are talking about when you say that people are concerned, that they do not want to invest in these cogeneration units because they may not be able to sell as much as they might expect because of the monopoly Ontario Hydro has?

Mr Solomon: Yes, it is cogeneration, it is small hydro and it is really all the forms of independent power that are out there. They all feel insecure. They are all threatened by the fact that Ontario Hydro is at any point able to just dictate terms. It is a very hard way to do business. They have only one buyer for their power: that is Ontario Hydro. They are in a very tough situation because

they cannot offend that one buyer either. They have no one to turn to under our monopoly system.

Mr White: Mr Solomon, you obviously enjoy the kind of gadfly effort you do. The chat you have given us is tremendously stimulating. I am wondering a little about the same question Mr Johnson brought up, which was the non-utility generation. You are suggesting that many of these companies would feel threatened because they are unsure of where Ontario Hydro stands.

But if we are talking about a total privatization, they should feel equally threatened and equally concerned about meeting the needs of an entire population in Ontario. They are competing with many other providers of power and they are doing so at present at a cost of four to six times the cost of the utility. You suggested a few moments ago that in the past we looked at solar power and this government said, "Gee, that didn't work," or coal or nuclear. But is it not also clear at this moment that we should perhaps look at non-utility generation where it is costing four to six times what Ontario Hydro's power is costing and say: "Maybe there are some problems too. Maybe that also is a fad?"

Mr Solomon: I do not know where you got your four to six times figure, but it is not correct. Non-utility generation produces power at a lower rate than Ontario Hydro.

Mr White: Then why does Ontario buy it at a higher cost?

Mr Villeneuve: I am not sure they are.

Mr Solomon: Ontario Hydro is squeezing out the non-utility generators. The situation in Windsor is a very good example. Windsor would like to build a major non-utility generating plant. Hydro has said no. The reason Windsor likes it is because its power costs are going to drop by having a non-utility generator produce electricity for it instead of Ontario Hydro producing electricity for it; it is going to have substantially lower electricity rates. In other words, a NUG is more efficient than Ontario Hydro, but Ontario Hydro has another problem because it has a lot of fixed costs. It does not like competition. If it loses the market in the Windsor area, that means it is going to have to raise rates for everybody else. If it was a privatized system, the shareholders would take a bath, but because it is a monopolized system there are not shareholders to take a bath. Ontario Hydro is just keeping everyone in place.

Mr Carr: And taxpayers take a bath.

Mr Solomon: The taxpayers will take a bath sooner or later, but we are putting our heads in the sand and not facing up to reality. We have in the case of Windsor one of the most depressed parts of the province that is not allowed to have the investment it wants; it cannot have cheaper power that it would like; it is not going to have the jobs it would like, and all to protect the Ontario Hydro monopoly.

Mr Kwinter: Mr Solomon, first I want to thank you for keeping me informed as to your activities. It seems I get a fax about every day from you and it has got to the point where I look forward to them.

I am curious to know whether or not your projections for average residential rates would be the same for industrial rates.

Mr Solomon: We have not done that study yet, but certainly average industrial rates have been climbing dramatically as well. The Association of Major Power Consumers in Ontario has members in 40 jurisdictions and says that in 38 of those jurisdictions power is cheaper than in Ontario. In other words, if you are a business that is looking for cheap electricity, you are not going to come to Ontario; you are going to move to a lower-cost jurisdiction; and business, as we know, is mobile.

Mr Kwinter: Ontario has always prided itself on its competitive advantage of cheap hydro. That is why I am very interested in what you have to say, that this particular advantage has disappeared or is disappearing. Is that correct?

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Mr Solomon: That is correct. In Canada it has disappeared. There we have looked at the figures. In Ontario large industries pay 60% more than large industries outside Ontario. If you compare Ontario with our two neighbours, Manitoba and Quebec, large industries are paying 70% to 80% more for their power in Ontario.

Mr Kwinter: Do you think if the system were privatized that would improve?

Mr Solomon: Yes. If we had a fully competitive system, the power rates would gravitate down to about half of current rates.

Mr Kwinter: When you talk about a monopoly, you said if you should suddenly privatize the Windsor area, Ontario Hydro as a public utility would have to raise its rates to compensate for its loss. One of the reasons for having a public monopoly is so that areas that are not economically viable can be serviced, whereas if you had to be in a competitive situation, nobody would touch it because they would never recover their investment. Under your scenario, what happens to those remote areas that do not have the ability for wind generation, for cogeneration, but just need a line down there to keep them energy sufficient, and that is something the system absorbs? How do you deal with that in a privatized system?

Mr Solomon: First of all, the entire system would be much more cost-efficient and in many remote areas it would be a boon, not a loss. When those situations you described arise, if as a matter of social policy the government wants to make sure consumers are compensated, the most efficient way to compensate consumers is through a direct grant that is outside the electricity system. In other words, they would build the most efficient system for themselves given the economic reality of the jurisdiction they live in and, if necessary, they would get a subsidy somehow through the tax system in those few instances where it would be required.

Mr Kwinter: Given the importance of energy and electricity and power, would you envision that under a privatized system there would still be an energy board that would set rates, or would it be a free market system?

Mr Solomon: We would need the energy board probably to control the grid system. I think it would be prudent for a few years to have a regulator to watch the system as it settles down. Electricity is so naturally competitive with so many sources and so many different fuels, with generation able to be accomplished virtually anywhere in the province, that we would end up having market rates and very fair rates. I do not believe we will need in the long term regulation of electricity rates.

Mr Johnson: Would a private corporation or a series of corporations, if Ontario Hydro were privatized, endorse conservation or would they promote more electrical use?

Mr Solomon: They would not care less about conservation. They would be trying to promote their product as much as they could. I think the example in the United Kingdom is a very good example: Their Hydro was broken up into really three parts, two large companies that were private generators, one nuclear division that stayed under state ownership because the private sector did not want it, and then there was a grid throughout it. The reason Thatcher decided to privatize the electricity system, above all, was that everyone agreed there was a need for a lot more expansion but she did not want the government to have to come up with the money or with the loan guarantees for that expansion. She said: "We'll privatize the whole thing. We'll let the private sector worry about finding the capital." There was no debate in the UK over whether that additional power was needed, but as soon as the system was privatized, overnight 75% of the expansion which was thought to be necessary turned out to be unnecessary.

The nuclear expansion program ended, of course, because the private sector realized that it was not economic. The coal expansion plants all ended as well, because coal expansion was not desirable.

But more happened. As soon as the private sector took control over the existing plants, it realized it could run those plants more efficiently than they had been run by the Hydro-like company. The output became higher from those plants, their availability became higher—so much so that they soon started to prematurely retire their existing coal-fired capacity. First 4,000 megawatts were retired, then 16,000 megawatts of coal-fired capacity. Now they are talking about retiring some of their oil-fired capacity too, and possibly some of their existing nuclear capacity.

This is virtually all because of market forces. The best thing for the economy is retiring all these plants, and of course that is not bad for the environment either, but it has not all been a case of shutting down the plants. At the same time that the private sector has been shutting down these plants at a remarkable clip, it has begun the greatest building boom since the days of the Organization of Petroleum Exporting Countries in the electricity sector in the UK. All the power that is now being brought on stream in the UK is high-efficiency gas technologies or renewable technologies. It is mainly high-efficiency gas, but there is biogas and wind as well.

So we are seeing a dramatic change in the nature of the electricity system, and what is going on are all the polluting technologies—nuclear and coal and oil—and what is com-

ing in are all the high-efficiency technologies: renewable technologies and high-efficiency gas. So although the private sector could not care less about conservation and the interests of environmentalists, those who care about conservation certainly have been very pleased with the results.

The Chair: Mr Ward, you had one?

Mr B. Ward: In a free market system that is unregulated, eventually—I think it always happens—you have two or three big players that end up controlling the majority of the market. I am trying to read in the background. How do other countries prevent that from happening, where in essence a cartel is formed and rates are artificially set?

Mr Solomon: In the history of those cartels, what you are describing does happen, but the reason it tends to happen is because of governments setting rules to make it happen. The only reason we have a monopoly in Ontario is because there is provincial legislation keeping out those independent generators. It is against the law for you to sell power to somebody else.

Mr B. Ward: But totally unregulated, eventually what happens?

Mr Solomon: Eventually what happens is that the system becomes highly decentralized. It stays there.

Mr B. Ward: Yes, but eventually, down the road, you are going to get two or three big players that snap up all the little ones.

Mr Solomon: I do not believe that would be case.

Mr B. Ward: No? Why?

Mr Solomon: Someone earlier referred to cogeneration as a new technology. In fact it was the very first.

Mr B. Ward: It has happened in telecommunications. It has happened in cable. Why would it not happen in energy?

Mr Solomon: The very first electricity plant to be built was a cogeneration plant; it was installed in J. P. Morgan's house by Edison. Every furnace that is in every home and every apartment building and every shopping centre that right now is just producing fuel for heat could at the same time be generating power. For the same reason that you cannot monopolize all the producers of heat, of natural gas heating and oil heating and electric heating, we are all running these plants in our homes. For that reason, we would not be able to monopolize electricity except with the government's assistance.

The Chair: Mr Solomon, I would like to thank you for coming before this committee and for your presentation.

Mr Solomon: Thank you.

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ONTARIO NON-PROFIT HOUSING ASSOCIATION

The Chair: The next group we have coming forward is the Ontario Non-Profit Housing Association. I would like to welcome you to the standing committee on finance and economic affairs. If you and your colleague could identify yourselves for the purposes of Hansard, then you may begin.

Mr Maloney: I am Roger Maloney. I am the commissioner of housing for the region of Peel and I am the president of the Ontario Non-Profit Housing Association.

Mr Marmor: Good afternoon. I feel like I am being asked to do something a little bit more than just make a presentation this morning. My name is Saul Marmor. I am the acting executive director of the Ontario Non-Profit Housing Association. The clerk of the committee, Mr Decker, is now handing out copies of our presentation.

The Chair: We have a total of 40 minutes, if you can start now.

Mr Marmor: We can start.

The Chair: If there are books for reference, you can hand them out while you are speaking there.

Mr Marmor: Okay. The Ontario Non-Profit Housing Association, or ONPHA, as we are more commonly known, was established in 1988 by municipal and community-based non-profit housing corporations to build a strong non-profit housing sector and to promote the production and management of high-quality affordable housing across Ontario. We believe that access to decent, appropriate and affordable housing is a basic human right and ONPHA is committed to ensuring that this right becomes a reality for all people in Ontario.

Currently ONPHA represents more than 400 members, including 104 municipal non-profit housing corporations, 191 community-based non-profit housing corporations and 148 associate members. Our members are providing and managing over 52,000 non-profit homes in Ontario serving a wide range of people in need. The non-profit housing sector is the major producer of housing for people with low and moderate incomes. Our members are providing housing for families, single people, senior citizens and people with special needs. The success of government programs for non-profit housing is greatly due to the commitment and hard work of community leaders and volunteers determined to help people in need in their communities. The vast majority of our members are non-profit housing corporations with fewer than 100 units under management in urban and rural areas throughout Ontario. ONPHA also represents larger community-based non-profit housing corporations as well as the large municipal non-profit housing corporations in the major urban centres. A list of our members as well as our board of directors is attached to your copies of today's presentation.

The purpose of our presentation today is to express ONPHA's viewpoints to the standing committee on finance and economic affairs on the continuing need to provide for the development of non-profit housing in the 1992-93 Ontario budget and on the impact of the government's recent decision to limit non-profit housing program expenditures in 1992-93 to only 1% more than in the current fiscal period.

Mr Maloney: In 1992, Ontario's economy finds itself in the grip of a long and difficult recession. Job losses have been high and continue to persist and welfare rolls continue to escalate, especially as unemployment benefits expire. Waiting lists for non-profit housing corporations continue growing. In a time of major recession, the need for government programs to create employment and to stimulate economic activity is greater than ever.

In its 1991-92 budget, the government took the right approach in responding to the downturn in the economy. Rather than fighting the recession with cutbacks to services and programs, the 1991-92 budget supported those in need and gave priority to spending to stimulate employment and economic activity. By announcing a program to create an additional 10,000 units of non-profit housing in 1991-92, the government recognized the urgent need for more affordable housing. ONPHA believes that the 1991-92 approach was the right approach at the right time. The combined efforts of government and the non-profit housing sector over the past year will stimulate the economy in 1992 by creating work in the construction and home building sectors. This is known to also have a multiplier effect on other sectors in the economy. In turn, creating employment through residential construction should help to reduce the costs for unemployment and welfare by putting people back to work.

Overall, almost one third of all housing starts in Ontario in 1991 resulted from the non-profit housing initiatives. Building on the success of its efforts in 1991-92, ONPHA is strongly recommending that the government continue in its 1992-93 budget to provide the resources and funding required to develop more non-profit housing in communities across Ontario.

The need for non-profit housing continues to grow. The lack of an adequate supply of non-profit housing is a major factor contributing to poverty. In every region of Ontario, waiting lists are higher than ever before, with over 100,000 households now seeking non-profit housing. Furthermore, people are becoming increasingly dependent on food banks to help them survive. The average food bank user spends 70% of his or her income on shelter.

In its report entitled *The State of Housing in Ontario*, which was released in April 1991, ONPHA estimated the need for 14,000 to 16,000 rental units per year. ONPHA recommends that this number serve as a target for the annual production of non-profit housing in Ontario.

Building non-profit housing has proven to be a very effective tool for fighting the recession and we are urging the government to continue with this approach in the 1992-93 budget. In 1991, the production of non-profit housing has generated more than 35,000 person-years of employment. The building of each new home, with its associated economic spin-off and multiplier effects, creates approximately 2.5 person-years of employment. Furthermore, housing is a product made in Ontario which stimulates the economic activity throughout the manufacturing sector as well as in the construction industry.

The government should continue spending on capital investments in 1992-93 to fight the recession. Non-profit housing is a capital investment, producing a substantial long-term asset and a public benefit. Furthermore, every dollar spent on non-profit housing achieves a greater degree of employment creation and economic stimulation in fighting the recession.

Because non-profit housing is financed through mortgage loans made by a non-profit housing corporation, the debt service costs of the loan are reduced by rental revenues. This produces a greater bang for the buck in fighting the recession

than direct capital investments by the province. Rather than payments towards public debt interest, the government provides a carefully monitored and closely scrutinized operating subsidy. Furthermore, Ontario is currently spending only 1.7% of its budget on housing.

The Treasurer has decided to limit the total amount of operating expenditures for non-profit housing in the 1992-93 budget to only 1% more than in 1991-92. The impact of the 1% limit on non-profit housing program expenditures will be devastating, in our view. Non-profit housing programs are already tightly controlled, with sparse operating budgets for both maintenance and staffing. Further cuts to these areas will decrease service to an unacceptable level. Quality of life for tenants and communities will suffer, as staffing and service levels will be greatly curtailed. Neighbourhood opposition to non-profit housing projects will increase as properties deteriorate due to the lack of sufficient maintenance.

ONPHA recommends that the government's objective in reviewing non-profit housing program expenditures be to save money by restructuring the delivery and design of the program while maintaining or improving existing levels of service.

A major goal for the government in restructuring its programs is to eliminate duplication of service between ministries and transfer payment recipients. Furthermore, there is a tremendous need for ministries to coordinate and cooperate with each other in the delivery of programs.

I will turn it back to Saul to finish our presentation.

Mr Marmor: During the past year, ONPHA consulted extensively with its members and with others in the non-profit housing sector on current and future non-profit housing policy and programs for Ontario. This consultation was centred around two discussion papers released by this government in June 1991 entitled *Government Land for Housing*, and *A Housing Framework for Ontario*.

In September 1991, ONPHA responded to both these discussion papers with close to 200 recommendations and a goal of seeing the new non-profit housing program announced at the time of the 1992-93 budget. ONPHA believes that its reports on the government's two discussion papers are worth presenting to the committee, especially in light of the Treasurer's decision to contain non-profit housing program expenditures in 1992-93. We have provided you with copies of these two reports.

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In summary, we at ONPHA believe that building non-profit housing translates into good economic and social policy for Ontario. It will create jobs today and provide a supply of affordable homes tomorrow.

To conclude, let me say that ONPHA appreciates this valuable opportunity to present its points of view and recommendations to the committee. We know that this year the committee has only enough time to hear from a very few groups, yet we believe that our remarks today represent the opinions and general direction supported by advocacy groups, tenant associations, housing organizations and the building industry in Ontario.

Mr Sutherland: When you talk about the increase the Treasurer announced in terms of operating costs, 1%, and the concerns about that, I am just wondering if you could explain a little bit about how mortgages are operated here? We had the Ontario Federation of Agriculture in yesterday. One of the proposals they are starting to work on possibly for farmers is the idea of the government covering the cost of the renegotiation fee of their mortgage. Bringing it down to lower interest rates would save farmers a great deal of money over the long term. Is there any potential there to look at something that way in the non-profit housing sector as well?

Mr Maloney: I think there is excellent potential because as it stands now each individual project has its own mortgage that is negotiated individually. The province has centralized some of the projects coming up for renewal.

What would make a lot more sense, as an example, is that Sun Life has 50 mortgages out there. There may be an approach to that company to say: "We'd like to renegotiate all those mortgages. In exchange for doing that, we'd extend your term an extra five years, because they come up for renewal in five years." I think there is a lot of potential for that type of initiative. I know the ministry staff are now looking at that because ONPHA was involved in a brainstorming session with the ministry staff asking, "How can we save dollars in the program?" That is one where a lot of money could be saved.

Mr Sutherland: Just on that, do you have a rough idea of what the average mortgage rate would be right now? I know they are all over the map.

Mr Maloney: I can tell you from Peel's perspective right now. I would say the average is probably about 12%. We have seven coming up for renewal this year and they are dropping to 8.5% so we are going to see significant savings. Now is the time to look at that initiative.

Mr Mammoliti: First of all, let me just say that I have been an advocate for non-profit housing for years and co-ops as well. I believe you are doing a good job. I think we should continue sponsoring.

I thought it important for me to mention that. I know that during our hearings and meetings with our rent control committee, the standing committee on general government, we talked a lot about this. There are a lot of mixed feelings within the Legislature, perhaps even in this room, in terms of policy. Some people do not believe that government should be sponsoring, giving out money to non-profit housing and co-ops, for the simple reason that it is a lot of government money—there may be some logic to that—and that we should perhaps be subsidizing the tenants who live in a profit-making building. What would you have to say to those critics who would argue that point? What benefit is this to government and what benefit is it to the community?

Mr Marmor: Thank you for that question. I think often the definition of the problem and the policy question is, how do we provide affordable housing, how do we provide housing or how do we provide people with the resources to find affordable housing? There are at least two components to the definition of that problem: One is the

price component, or the cost, and the other component is the supply.

On the price side of course there are different options available for providing people with enough income to be able to purchase housing. I think this is the point you are referring to, that through social assistance programs today and through general welfare people do receive a shelter allowance. In fact, non-profit housing programs are structured to provide a direct shelter allowance to those living in non-profit housing who cannot afford to pay the market rent. That is known as the rent-geared-to-income subsidy, the RGI subsidy.

The second part of the problem is a little more difficult and that is the supply side. Non-profit housing programs develop particular types of housing to serve the unique and special needs of local communities. The strength of the non-profit housing program supply system is that non-profit housing is outside the marketplace, so it provides a form of rental housing on a non-profit basis, which remains affordable or remains non-profit for ever or in perpetuity. That is an advantage over the supply of rental housing by the private sector.

The other great advantage is that housing is developed with the users in mind so that volunteers, local people in their local communities—and that is the strength of the program—commit their efforts. They volunteer their time, their experience and their knowledge. People from all sectors of life, people familiar with real estate, people familiar with development, are the people who constitute the community-based boards of directors of non-profit housing corporations and through their volunteer efforts create a supply of housing specifically suited to the needs of people they identify. I think that is very different than what the private market provides in rental housing.

Just to sum up, we all know that the costs of housing are not any different for the non-profit housing programs than they are for anybody building housing. Non-profit housing is built by the private sector. Non-profit housing corporations use private sector labour. They use private sector developers and construction firms and so the costs are normally the costs in the marketplace. There is a need for a supply subsidy because the costs to actually build the housing are much greater than even the market-level rents that people are willing to pay.

Mrs Y. O'Neill: We had some presentations this morning that I think would tie in very much with your presentation in that we find that the affordability of housing is still one of the most difficult crosses the low-income people in this province have to face. I wonder if you could give us any idea how many people your projects in each community service, how many of those people are on social assistance? Is there a general average across the province? I know most of these are mixed, but could you tell us how many people on average would be served in any of these projects?

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Mr Maloney: I could give you an example from Peel, where I am from. We have about 4,000 units in operation with people living in them. Our recent studies show that

we have I think about 15% of our clients on family benefits, about 10% are on unemployment insurance. We have a great many who are low-income earners earning \$25,000 or less, so they are getting a deep subsidy or a shallow subsidy. The remainder of the individuals are working. We see a lot of movement within that too from month to month, based on what is happening in the economy.

Mrs Y. O'Neill: Right. I have a lot of subsidized housing in my riding and I think I also have a very healthy representation of co-op housing. I really strongly support what you have just been saying about the kinds of volunteers involved on these boards and even some of the professionals offering some of their services at very reduced rates. At least in my community that is the experience.

Can you tell me anything about the lot levy legislation and how it may be affecting you?

Mr Maloney: Certainly at this stage, as a municipal non-profit, we pay full levies. If education levies do come in, I think we are going to be subject to them.

Mrs Y. O'Neill: You do not have them in Peel yet?

Mr Maloney: No, we do not have them in place yet in Peel although I think Peel is waiting for the first test case to go forward, actually, and did not want to be the municipality to be the first case.

Mrs Y. O'Neill: I would imagine Peel would have been the first one in with its fee. Carleton is part of my riding and Peel and Carleton, being fast-growing—that seems to be the reason that people want to go into this kind of taxation.

Gentlemen, I have no further questions. Perhaps my colleague has something to add.

Mr Phillips: In terms of what I recall from last year's budget and conversation, the government planned to provide roughly 10,000 more non-profit units per year. Is that what I remember as its plan?

Mr Maloney: Certainly they agreed to provide 10,000 last year. We encouraged them to provide more than that on an ongoing basis. We said there was a need for 14,000 to 16,000. I do not think there was a long-term commitment for more beyond that.

Mr Phillips: I just remember the Agenda for People was 10,000 a year, as I recall it.

Mr Carr: I think it was 10,000 and 10,000, so it was 20,000.

Mr Phillips: What is your feeling right now about what is likely to be in the budget in terms of the number of new units?

Mr Maloney: What we have been told so far is not a lot. We have been told just recently that the Premier's announcement about the 1% is applicable to us. We have also been told there is a program review under way that I believe is going to go at least to a committee of cabinet or else to cabinet. Within that there are a lot of features that are being looked at.

I said we had a brainstorming session. We were asking, should replacement reserves be considered to be on hold for a year or two for new projects, should we look at remortgaging, the question we had earlier, should we look

at how we can save within a sector, should we be looking at utility costs and so on? Our understanding, and there is nothing in writing and it has not been clarified yet, is that the program is contingent upon what savings we are able to achieve as well. So if we are able to put some savings into place in a sector there should be a program, but it is not very clear at this point in time. Nothing formal has come out and we are told that we should have some sort of answer on this program review by the end of February.

Mr Phillips: What is your organization's recommendation in terms of the number of units? Is it the 10,000 that you feel is a minimal number?

Mr Maloney: Yes. We were saying 14,000 to 16,000, but we would be quite happy with 10,000.

Mr Phillips: How much additional money do you think would be required for that?

Mr Marmor: We do not have those details with us here. The Ministry of Housing has published the average costs of both the supply-side subsidy and the RGI subsidy on each additional unit. There is an appendix in the government discussion paper, A Housing Framework for Ontario, which is very detailed in terms of the cost. I could refer you directly there and you could find those figures. We just do not have them here with us right now.

Mr Phillips: I remember—sorry, Mr Chairman.

The Chair: You still have time.

Mr Phillips: Last year's budget talked about the need to provide, for each 10,000 units, \$150 million. I think that was the number. Yes, it is. Is that still the number that is required for 10,000 units?

Mr Maloney: I would think it should be reduced, because any projects that have been approved in the last I would say six to eight months—there is a MUP, which is a maximum unit price. Most projects are being approved around 92% or 93% of MUP. In fact we had one that was approved at about 88% of MUP. Land prices have fallen and construction prices are down somewhat as well. I think the cost would be reduced. I cannot say exactly how much, but I would think down anywhere from 5% to 7% or 8%.

Mr Phillips: So maybe only about \$135 million now instead of \$150 million, right?

Mr Maloney: Maybe \$125 million. I am guessing. That is a lot of money anyway.

Mr Marmor: It is hard to put a number on it.

Mr Maloney: Yes, it is hard to put a number on it.

Mr Phillips: Then that is the number that has to be put in the budget each year, I gather, for the units? That is an ongoing cost?

Mr Maloney: What happens is, once the capital budget is put in place, as I mentioned earlier, each property has a mortgage. The subsidy really depends on how much rental revenue is collected, first of all. So the cost may be less than that, depending on how many people are paying market rent and how many people are employed in the project and are paying shallow-subsidy rents. Again, you really have to do some gyrations to come out with actually

what the subsidy would be in each project and do some projections across the whole 10,000. Part of it looks at what the average person who is getting a subsidy is now paying in rent and projecting what is going to happen in the next year.

The Chair: You have about two minutes.

Mr Phillips: I am just trying to get an idea of what the government is likely to do here, based on its, I guess, feeling that capital projects are awfully good things right now. You would speculate that they would have a priority in this area, I would think.

Mr Maloney: I would hope so, given the fact of the employment creation and so on too, and the multiplier effect and all the subindustries that benefit from the building of housing.

Mrs Y. O'Neill: You feel that if there is money placed on your line of the budget, the social assistance line is less. Have you got data to show the direct relationship of moneys going into assisted housing and keeping people off social assistance?

Mr Maloney: Within our own corporation we work very closely with the social services department. We can see the difference, because individuals are probably in the private sector and they are getting a supplement, as well as basic welfare, up to whatever they are actually paying. So they came in to us. They are paying a subsidized rent, so that also falls off. But I have not seen studies like that across Ontario, other than maybe the SARC report, which was done a few years ago. But within our own corporation we look at that and see how much it would save both the provincial government and the region, in our instance, because it pays 20% of the welfare costs.

The Chair: We will have to carry on to Mr Carr.

Mr Carr: I was interested in the cost as well. We put together a bit of a study on the per-unit cost. We got the information through the freedom of information. Notwithstanding what you said on the per-unit cost, it is substantially higher when you look at non-profit. You used the \$1,500 figure. You said there are controls, and, right, you use the same architects. The problem is that the percentage the architects take is higher with the non-profit; you look at the consultants' fee. The fact of the matter is that there is a lot of profit in non-profit. If you take the per-unit cost, when you people do it non-profit, it is substantially higher. How do you handle that allegation that when we build something through the non-profit, there is a lot of profit in there for whomever, and that in fact when the government gets involved in building them, the figure I have heard is that they are twice as expensive on a per-unit basis. How would you handle that?

Mr Maloney: First of all, I would like to see your figures and see where they come from, because twice the cost I would say is just not correct.

Mr Carr: What was your figure? How much higher would it be, 20%, 30%?

Mr Maloney: First of all, what is it being compared to?

Mr Carr: Your cost on a per-unit basis, versus what it would be if I went out, say, to Halton. You put up a non-profit and I go out to rent for the next door neighbour that has been built by the private sector and they are charging \$800 or whatever per unit on a monthly basis. How much higher is your cost?

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Mr Maloney: I would say it is not that much higher, because if you look at our costs, 80% of the costs are hard costs you really cannot control, being mortgages, taxes—

Mr Carr: The same as the private sector.

Mr Maloney: Exactly. So what you are getting down to is 20%, which talks about things such as the standards of your building, how to maintain your building and what staffing levels you have. When you are talking about only 20%, I cannot see how the costs of ours could be twice as high as anyone else's. I have never seen a study like that and I would like to see it, if it exists.

Mr Carr: The other question I would like to ask is this. The reason for the 20,000 figure was that it was the waiting list, and the government, through the Agenda for People, said: "We're to eliminate the waiting list for non-profit housing. We're going to build them all." The fact of the matter is that there is not enough money in the budget to end that. We pump more money into non-profit, and every year you people come in and ask for more money. Each government has done that successively, going way back. Each year we pump more money in; the waiting lists get longer. If you look at it, we are up 87% in two years in housing. The Premier goes on TV and says, "Any government that comes in would have a deficit." When you look at housing, that is not the case. Where the money is going to, the graph goes like this, like a rocket taking off, because of non-profit housing.

How do you see the private sector fitting in with you? George mentioned it earlier. What the government has done is drive the private sector out, and you people are the only ones, because obviously if you do not do it, we have no place to put the people. How do you see the interreaction with the profit people? Quite frankly, the feeling is that if we leave it up to non-profit, the waiting lists will continue to get longer. Do you have any suggestions on how you would like to work with the people who are in the private sector, the so-called profit, if you will? How do you see that working?

Mr Maloney: The first thing I can say is that you are right: With the rent control situation, the private sector is not building affordable housing. If it is building anything it is building condominiums, and right now it is not even building condominiums. It is building non-profit housing and that is about all it is building.

Just as a direct impact of that, our corporation, when it started out 10 years ago, was very small and it was never intended to become as large as it has. We are now the largest landlord in the region of Peel, and it is not because we have been tremendously successful; it is because the private sector stopped building. The Bramalea Ltds and so on do not build any more.

Mr Carr: Government incentive pushed them out, I would submit. But go ahead, sorry.

Mr Maloney: Well, they just found that they wanted to build private sector homes too, because there is more financial incentive in doing that, or there certainly was until recently.

Mr Carr: You know what the Premier has said, that the way you get more non-profit housing is to drive the private sector out, and he basically has followed that plan. What I hoped is that at least he would come clean with people and say: "Hey, look, this is what we believe. We don't believe in the private sector. It should be all non-profit." I am saying that through the rent bill that is what happened; the rent control bills drive it out.

Mr B. Ward: That is not true.

Mr Carr: Then how they justify it is they say: "We have to build it. Obviously, we've got these waiting lists, so it has to be non-profit." The private sector is not jumping in because it cannot make a profit doing it, and that is why, when we get back to the cost—and we can debate about how much higher it is—I submit to you that it is higher with non-profit. We can debate about 10%, 12%, 20%, 30% or whatever. That is my feeling.

But going on a little bit further, with regard to upgrading—you are talking about building from scratch. As you know, we could also be employing people through upgrading the existing ones. Do you have any suggestions in that regard, in terms of upgrading? You talked about the money you would like to spend on new units. How about the upgrading? Where are we at with that? I understand, and you would know at first hand, that we are looking at some deterioration where we need to put some more money in there. How much would you like to see in that area?

Mr Maloney: Certainly one issue is that the program could allow acquisitions of certain projects too, particularly ones that have the opportunity to allow expansion as well. You could pick up a small site with 30 units. The site would allow another 30 units, so you could renovate the units that were there if they were in need of it and intensify the site as well. Hopefully any new program will include that, certainly as an option.

Mr Marmor: I think in our mind, when we say a number of units in terms of a new supply, we are targeting new units, because I think our estimates from the State of Housing in Ontario report were also largely based on projections about population growth and immigration to Ontario, but the non-profit housing programs have provided in the past for acquisition and rehabilitation of existing rental property, property that has deteriorated or property that for whatever reason becomes available. The non-profit programs have usually provided for a percentage of the units to be done under that basis.

Mr Carr: Again, just so I am clear, the total amount you would like to see the Treasurer increase this year would be what?

Mr Marmor: We are recommending that the annual production target for non-profit housing in Ontario be 14,000 to 16,000 units per year.

Mr Carr: At what total ballpark cost?

Mr Marmor: Again, we do not have the per-unit cost at our fingertips. The appendix in the government's—

Mr Carr: You deal with it. You must know what the per-unit cost is on an average basis. That is going to be different depending on the circumstances, but even if you took a low average, surely being in that industry you know what your per-unit cost is.

Mr Maloney: It depends on the location, too.

Mr Carr: Let's take Peel, next door to me in Halton. You surely must know what your per-unit cost is.

Mr Maloney: On average it is probably \$130,000 a unit.

Mr Carr: There you go: \$130,000 times 1,400.

Mr Maloney: In Ottawa it might be \$100,000. Up north it might be less than that. I do not know. Even if you said on average it was \$120,000 a unit, period, multiply it by whatever the number of units are and that will give you your number.

Mr Carr: Let's talk about Peel specifically rather than going all over. How much do you need to eliminate your problem of waiting lists? You mentioned the per-unit cost. How much would you need for Peel alone, which I admit is the biggest-growing area?

Mr Maloney: Today we have 7,300 households on our waiting list. You are right, Peel is growing. We are still growing by close to 20,000 a year. We also have the refugee problem in Peel that we see in the social assistance. With the airport there we get a lot of people coming into Peel. We cannot see that growth changing over the next few years with the immigration policies the way they are. Also, there is enough space still for us to be able to build in the area. From our corporation's point of view we have asked for 800 units a year as a base for us for Peel non-profit. We got that over maybe the last couple of years. Before that we never achieved that. As well, there are the private non-profits and the co-ops in Peel which also build.

Mr Carr: But do you see what we are looking at? You need 7,300; you are asking for 800. We will never be able to solve the waiting list in Peel for non-profit housing without some other means of doing it. Basically you are saying that. That is what I am saying. George went out of the room. I did not mean it to be partisan, but what I am saying is you have people in the non-profit saying we cannot solve the problem just by the numbers there in Peel without some other type—what I am saying is that it has to be the private sector.

In closing, if you drive the private sector out, these people are saying they cannot solve it and so we are going to continue to have an increase in waiting lists. Even if we pump 800 new ones into Peel like you request, the waiting lists are going to get longer. I am not making judgement. I am just saying we are going to be in crisis a year from now because you are going to have a longer waiting list even though we have pumped more money into it. That is just food for thought.

The Chair: Mr Carr, let him answer the question. I know you made a statement; it was not a question.

Mr Maloney: We have never seen ourselves as the full answer for Peel. We are one of the answers. The co-ops are another answer; the private sector is another. There is a lot of building going on in Peel for low-end home ownership too, which is another answer. In our corporation about half the people who leave us each year buy some sort of accommodation. We see that as a positive stepping stone. We have never seen ourselves as a full answer. I do not think we ever will be.

The Chair: I would like to thank you on behalf of this committee for appearing here. Your brief and your comments will be put into the pre-budget consultation report given to the Treasurer.

Mrs Y. O'Neill: In connection with this presentation, would we be able to ask research to find from the Ministry of Housing its updated figure on the per-unit cost and the annual upkeep on that, once established? Those figures should be available. It would give us a little bit of an idea what kind of recommendations are realistic.

Interjections.

Mrs Y. O'Neill: I am sorry. These gentlemen said they could not give it to us. I thought if we got something from the Ministry of Housing, it would likely be an average across the province, which I think would be helpful.

The Chair: Okay, fine.

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PROJECT ECONOMIC GROWTH

The Chair: The next group we have is Project Economic Growth. Would they come forward, please. I would like to welcome you here to the standing committee on finance and economic affairs. I do not think that sun is bothering you sitting there, is it? You can see? Okay.

Mrs Harley: It is all right. Once I get my glasses on I will be fine, anyway.

The Chair: Okay. We have 40 minutes for the presentation, and if you would identify yourselves for the purposes of Hansard, you may begin. Please leave some time at the end of that 40 minutes for questions from the committee.

Mrs Harley: My name is Laurie Harley, and I have with me Barbara Caldwell, and we are here representing Project Economic Growth. What I would like to do is just say a couple of very brief introductory remarks on the project, who we are, and then we do have some prepared remarks. I am going to ask Barbara to go first and then I am going to basically conclude with some additional written remarks. We fully recognize we are at the end of the day. We stand between you and whatever is on your evening agenda, so I guarantee we will try to get our messages across as briefly as we can and certainly leave room for questions.

Interjection: We can't leave until 5 anyway.

Mrs Harley: Oh, is that right? Well, 15 minutes; that will be an effort, but we might make it.

Let me first make a few comments. Project Economic Growth is a non-partisan organization that has been in effect now since September of last year. We represent approximately 500 small, medium, and large-sized businesses

across the province, and we really came together with the prime objective of making economic growth and the kinds of factors we need to have economic growth and recovery in the province Ontario's number one priority. We are probably best known for some of our comments on labour law reform, because that has been one of our focus issues, but we clearly also recognize that there are lot of other policy initiatives that are under way, many of which are very supportive of economic growth, others that I guess we still have to see how they will unfold. But clearly we are here today to talk on a much broader basis and we welcome the opportunity to participate in these discussions. Let me turn the microphone over to Barbara.

Ms Caldwell: First, I think we would like to praise the government for the approach it is taking in opening up the pre-budget process to these consultations. We think it is important that all Ontarians have the opportunity both to understand and comment upon the options the government faces in setting its budget for the year. All of us are painfully aware—all of us in business, as Laurie and I both are—of the severe impact of the economic downturn in Ontario. As a result, all of us—individuals, businesses and governments—are facing tough budgetary questions. That is just to make you feel better, that you are not alone in this process. These decisions are critical, because of course they have impact on jobs, economic growth and people's lives.

On January 21 the Premier and Treasurer outlined the challenges the province of Ontario faces in managing its budget. In simple terms, it was explained that Ontario is caught in a revenue squeeze. We were told that the province has a \$5-billion revenue problem and a \$1-billion expenditure problem. We would suggest that it may be more straightforward to begin by stating that what the province has is a \$6-billion gap just to maintain its current deficit levels. We think that is perhaps a more realistic way to put the issue.

The province has already begun to address the challenge from the expenditure side. We have been told of the cost-cutting reviews taking place through the new treasury board and we are seeing the government acting with restraint in its contract negotiations with employees and with its transfer payments. You will doubtless hear many representations with respect to the types of cuts the Treasurer should make and the types he should not make. There will be much focus on the issue of how one controls expenditures to get at the problem. We realize that these are extremely difficult decisions for a government that is deeply committed to a social agenda.

Our purpose today is not to provide detailed recommendations. Instead, we would like to provide some examples of the way in which Ontario businesses have addressed their expenditure problems in tough times and then focus on the other side of the government's balance sheet, which is the revenues, which are generated through taxes placed upon business and working individuals in an economy that is on a growth curve.

The budgetary challenges of this government are clearly rooted in the state of the Ontario economy, but also in the United States and global economies beyond. Much

has been said about why we find ourselves in a period of economic anxiety and uncertainty. The Treasurer has pointed to the recession and federal cutbacks as the major causes for Ontario's sudden fall in revenues in 1991-92.

It is important to keep a sharp eye upon the major trends in our economy. There is no question that we are in unparalleled times. We are witnessing a significant transition from an industrial and resource-based economy to an economy based on the primary resource of information, and we need only to look at our manufacturing sector to know that is a fact. This transition requires a dramatic restructuring in our workplaces.

History tells us that periods of economic adjustment bring both good news and bad news. We find opportunities to grow and to enhance the quality of our lives, but at the same time our lives can be profoundly affected when we face painful readjustments. History also tells us that we cannot place our heads in the sand and ignore the major trends that face us. Whether it was the transition from a feudal economy to a commercial economy or the transition from an industrial economy to the one that we are now facing, the one based on information, those who survive and thrive are those who understand and respond to the trends rather than rest on their track records of old.

Today, Ontario's businesses are facing a new set of customers and a new set of competitors. It is now impossible to avoid the impacts of the new global economy. The tools of business are different; the workplace is now using microchips, lasers and sound transmission, and their applications are different. Workers are now requiring much higher skills and must increasingly work as empowered decision-makers rather than supervised wage earners. I think this is a very fundamental change that we are seeing.

The keys to success in this changing economy are, we think, three. Quality is the first, brand loyalty. Loyalty to Canadian-made is disappearing; in fact, it might even be fair to say it is gone. Value and value added are what sell products or services.

Speed is second, and it does not matter, really, whether you are providing a service or producing cars or computers or delivering pizza. Today, you have to produce just in time, deliver on time and keep inventory low. Suppliers have linked together with producers in a rapid new form of efficient productivity.

The third element is flexibility. To compete you must be ready to adjust, change and respond to the market, to changes in technology, to changes in customer demand. That requires a new kind of workplace where employees are highly skilled, willing to change, working as a part of a workplace team and empowered to make decisions to enhance quality and speed.

What does this have to do with this year's budget? Our overall economic context is important for two reasons. First, we can all learn how to better manage our resources by understanding the broad forces of the new economy and by thinking long and hard about how we manage our resources within it. Government, like the rest of us, must adjust to change if we are to meet the challenges ahead.

Second, government, by its policies, can have an enormous impact on investment and job creation in the

private sector. This does not mean creating a low-wage strategy or providing massive handouts. Much of this influence is derived from trust, communication and partnership. If we meet this challenge head-on, we will have the revenue side of the government balance sheet go much further.

We believe the government is taking important steps in managing its resources more effectively. The establishment of the treasury board, as I mentioned earlier, to review expenditures was an important step. The opening up of this budgetary process is another. Ministries are themselves making tough decisions, and we do see encouraging signs of change. It is particularly encouraging in the Ministry of Health to hear a focus on Ontarians as customers. That, I think, is a very interesting change of approach. Much, obviously, remains to be done.

Businesses have tried to squeeze more value out of their Ontario investments, and to do so they have followed a number of important strategies. We think some of them may apply also to the government's plans to better control expenditures.

I guess the first thing that government looks at whenever it is considering any kind of new product or promotion is whether there is a need, and I think we would ask the government, as an initial step, to begin to look at all its programs to see if indeed there is a need. Is it a perceived need? Is it a need that there used to be? Is there still a need and will there be a need in the future for some of those programs?

We would then suggest that, as business does, you make a tough assessment of the capabilities you have. Can you respond quickly with new innovations? Are you using the most efficient technology? We might talk about a couple of examples of that later if we have time. Are you using your assets effectively? These are all things that business looks at. Are your costs competitive? Is your service of high quality?

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Business recognizes that people are the greatest assets. Are you assisting them to attain the skills they require? Do they have incentives to be more productive? Do they feel empowered? Is the decision-making process being moved out? Do you have too few or too many people for the work required? Do they understand the vision, or does the government have a vision, and is it clearly communicated? This is an issue that we all deal with in business. We have to know, first, where we are going and then we have to find ways to communicate that to the people who are going to get us there.

Do you understand your competition and are there ways to learn from it? Have you considered what has worked in other jurisdictions? Would the taxpayer, the customer, benefit from competition between government and private sector providers of certain services in terms of quality of service or product? How do the tax laws and incentives for economic growth compare in other jurisdictions?

The government will doubtless consider many of these questions as it plans its upcoming budget. There certainly are no magic solutions which we can offer today, except to suggest that we have in Ontario a tremendous resource in

those businesses that are themselves looking for creative solutions to these problems. We would encourage the government to establish an ongoing forum in which this type of advice can be applied to the open and effective management of government expenditures.

Laurie will now speak a little bit about IBM and some of the challenges that it is facing.

Mrs Harley: One of the approaches we wanted to take was just to say the value is to share information. So what we decided to do is to take a typical Project Economic Growth member—and we have very large companies; the one I am most familiar with is the one I work with, IBM Canada—and just share with you some of our experiences and what we have been doing. Then we will sort of come back at the end and try to tie that back to the broader level.

Just a bit of background: IBM has 12,000 employees in Canada, 8,000 in Ontario. Our business really is in two flavours; we have a marketing and service side to the business and we have a manufacturing and development side. We have two technology plants; one in Toronto, one in Bromont, Quebec. We have a software development lab also here in Toronto, which is the third-largest private sector lab in Canada.

The year 1991 was the worst in our history on the marketing and service side, and it was the best year in our history on the manufacturing and development side, so we understand both sides of the equation. The plant had a record year, with close to \$4 billion in exports, and \$2 billion of those came from Toronto, the plant and the lab.

Just to put that in perspective, last year Ontario exported \$74 billion, and that represents fully half of Canada's exports. Ontario is the engine that drives the Canadian economy, and Ontario cannot afford to have that engine sidetracked and losing steam; nor, indeed, can Canada afford that.

I would like to talk to you and describe very briefly the story of the Toronto plant. It employs about 1,000 people, accounting for \$1.3 billion of those exports last year. If you were to rank it, it would be one of the top 25 manufacturers in Canada and it would be among the top dozen exporters in the country. We are high-wage, we are high-technology. We compete with Mexico, the Far East, Singapore, Taiwan, Europe and the United States. Our win rate on bids out of the Toronto plant right now is running at 85% to 90%, so we can compete, and we do it very effectively.

We have been manufacturing in Toronto and in Ontario for 75 years. Since the late 1960s, we have what we call rationalized manufacturing, which means, on a worldwide basis, each IBM plant competes for a mission. It is a sealed-bid process, and we compete not just with our sister plants but with outside suppliers. To get new missions in Ontario you have to be able to compete with the best in the world.

I would like to take you back to 1986. Our Toronto plant at that point assembled printers and computer terminals, and we did an excellent job of it. We had good quality, we met our deadlines, and we felt we were doing an excellent job. We were very confident that next year we

were going to keep improving and so on, and that was because that was just the way it had always been.

The reality was, though, that we had lost sight of our market, to come back to some of Barbara's comments, and that market was changing. The costs and quality that we were so proud of no longer compared with the low labour rates and the outsourcing of the Far East, so the reality was that there were not only companies but indeed whole nations which were out there dedicated to displacing the work that we did in Canada. So we really saw the writing on the wall that said either we had to change things or the Toronto plant would probably close.

You could probably guess what the first reaction was: We wanted to blame the problem on somebody else. To be honest, government is used to that, so you were probably one of the first targets. However, very quickly you come to realize that you cannot do that. The problem is ours; it is our responsibility, and management, along with all the employees in our plant, had to take a very long and a very self-critical look at what we had to do to survive.

We set out to find a new, high-tech mission and to benchmark against the best in the world. The result was that we moved from that mechanical assembly of what we call boxes or completed products to under-the-cover technology, the things that you do not see but the things that are the strategic missions. Today, we make electronic technology of memory, logic and power supplies. The power supplies that we make in the Toronto plant now go into basically all of IBM's midrange and personal computers around the world.

There was just one problem in our strategy, and that was that all those things were already being provided to IBM on a worldwide basis by outside suppliers in the Far East. So if we wanted to do that, we had to win back the business for Ontario, and to do that, we had to leapfrog the competition to better cost and better-quality design. We had to refocus all of our plant operation and people on reducing defects and dramatically improving cycle time and, above all, to meeting customer satisfaction. We not only saved the operation in Toronto—it is a success story—but we made it one of the most productive plants in the world.

Our survival strategy depended on employee participation, and that was always our strength. We focused on education and training, and through redeployment of employees to growth areas such as our lab and by offering voluntary incentive programs for retirees, we basically were able to sustain our no-layoff policy.

Here are some of the things the Toronto plant did to survive, just to give you some ideas. In 1986, we had two indirect people—and "indirect" is our term for anyone who is not directly involved in the production process—for every one person on the production floor. Today, that ratio is 0.4 to 1. We moved most of our activities that had been supporting production back to the floor by empowering our production people. We had too many experts telling production what it could not do, and the reality is that today the people on the plant floor manage their own workstations.

Administration helped out too. They consolidated to reduce overhead. For example, by using some electronic technology like internal office systems and electronic mail, we reduced administrative expense. Today, we have three secretaries who support a 1,000-person plant, and that is quite satisfactory. It moves along very well.

Our information systems area is now operated by 15 people. Our accounts payable went from two levels of management and 50 people to one manager and 16 people, and they are processing more and have improved cycle time. We reduced the number of managers by 50%. Today, there are only four levels of management between the employee and the plant general manager, and by the end of this year there will only be three levels of management. Our plant manager is on record as saying if he could get rid of everybody and talk just directly to his 1,000 people, that would be good news for him.

There was an old paradigm that we had to get used to, that we used to judge management's success by how many people we have and how we control things. That paradigm is gone. We no longer need or have time for layers of management that simply filter and control. Managers have to justify their existence by being leaders and being part of the team.

The quality of our products has improved significantly. The power supplies that we produce in the Toronto plant now have a mean time to failure of 250 years. That means, in theory, they should keep going for 250 years. By year-end we expect to improve that performance to 1,000 years between failures. If you are wondering how we are going to do that, well, we even have to find a new way to measure it with some new product testing, because we obviously cannot wait around till 1992 to find out if we were right.

This obsession with quality does not just benefit our customer; it means significant cost saving to the company. For IBM, operating virtually in what we call six sigma, or a defect-free environment, would produce a 30% cost differential across our entire business. These savings come from more efficient manufacturing, right through to reduced warranty costs. That quality standard applies not just to the production floor, but down to how people answer the telephones.

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Finally, we continue to drive change throughout our company by investing in education and training. Even in difficult times we know we must maintain investment in people. In 1991, IBM Canada invested \$35 million in employee education, and that figure would grow to \$70 million if you included the salaries of the people who actually did the training in the classroom.

In the Toronto plant that translates into education courses which are offered across three shifts. For some of our employees who want to actually get community college credits for that, we have arrangements with local community colleges so that they can take the courses and upgrade their own formal education standing at the same time.

Not only are people flexible, but so are the plant fixtures. Nothing on our production floor is tied down. That means

that we can create a mini-plant and mini-environment on very short notice, if that is what the environment demands.

To reduce expenses, we decided simply to just stop doing things. For example, we decided to stop changing the endless process of building and relocating offices. The result was that our design engineers now focus on the business of the business, not on the constant process of who wants to move on to what floor, into what office and change colour combinations. By the way, we all travel economy class or whatever we can find that is cheaper, and that includes our chief executive officer. We set a new guideline which says that only one person goes to a meeting that is out of town. We used to send parades of people to the same meeting. The reality now is that if one person goes and it is important, he can bring it back and share it with his colleagues in the office.

We have reduced authority in signing levels, again trying to get decision-making down to the people who actually do the work. Today, that means our plant manager does not even sign off on expenses over \$1 million.

We are trying to throw out the old rule books and replace them with employee judgement based on sound principles of risk management.

Just to quickly summarize, we have learned the following lessons: There is no magic answer, there is no cookbook. You have to learn what others do. We very openly go and see what everybody else does, and then we borrow and steal whatever ideas we can and implement them in our plant. You have to develop a passion for quality and customer satisfaction, and you have to invest in your people and their innovation and creativity, and you can never look back, because a proven track record is absolutely no guarantee of future success any more.

We believe our experiences, along with those of many other of PEG's members, may be useful to government. If we have one message, it is that we think government itself must continue to restructure for the 21st century. In fact, we would like to see a vision for the Ontario government that says we will provide the highest-quality government services and the best policy environment that supports economic growth and our cherished quality of life, and we want to do that better than any other jurisdiction in North America.

The environment government creates can be a major positive factor in our competitiveness. Quality government services in support of policy environments go a very long way to help business prosper and create the revenue we are talking about generating in this province to support the quality-of-life programs we all want.

Many of the fixes I think you are going to hear in these hearings are very difficult ones, and a lot of them are really not within government control. There are many jurisdictions involved. The one area you do control is your own operations. We encourage you to make the most of that leverage, because we believe it is significant.

Let me leave that example and just come very quickly to some final comments on, not the expense side, but the revenue side. We submit that there is really only one way out of the Treasurer's revenue squeeze, and that is a policy program that encourages business to invest, create jobs and

grow in Ontario. Government can and should take a direct role in stimulating the economy, but large as it is, it can only do so much. Investing in infrastructures is one excellent way for the government to provide support to economic activity, while creating needed jobs at the same time. We praise the government for its past initiatives in this area, but we would like to underline the fact that, while important, government capital programs can have only limited impact on stimulating the economy.

The most important lever the government can pull in stimulating the economy is its policy agenda. Ontario's primary investors, both foreign and domestic, watch the Ontario government's policy agenda with a very keen interest. The policy agenda of the government and the reaction of the business community to that agenda have a direct impact on the capital which becomes available for the creation of new businesses and the growing of the ones that are here. It is also critical to recognize that our policy, taxation and regulatory environment is every day being compared to that of other provinces, states and countries.

How does the government respond to this reality? Surely not by abandoning social policies and objectives, nor by focusing entirely on the needs of business or investors. We have suggested that the government should respond by recognizing that any policy which has an economic impact is now an economic policy and has to be judged by the people who invest and create jobs, by measuring potential new initiatives against that same economic growth criterion, by assessing the overall investment climate in Ontario against that of other jurisdictions and taking action to ensure that Ontario remains competitive and finally by bringing together the economic partners of the province to consider the need for the economic impacts of policies before they are introduced. We commend the government for some of the initiatives it has undertaken. We see the environmental bill of rights and the Ontario Training and Adjustment Board as very positive collaborative efforts.

I do not want to spend a lot of time on labour law, but we would certainly just like to add our comments. We believe these proposals do have an economic impact and we encourage the government to follow a process which will bring the economic partners together to discuss those in the sense of economic impact and then, if there are changes, to take a look at what changes we can bring about, whether we need legislation for them or whether indeed there are other mechanisms that would fulfil the need.

In conclusion, I want to thank you for this opportunity to express our views. We almost made the 15 minutes, but we are a little over. We would also encourage the Premier to work with all of Ontario's economic partners to set policies and programs that will generate the wealth we need, because we all believe very strongly that we want to protect the quality of life we have in this province. We can compete. There are lots of champions around the province being successful today. We just have to learn what they are doing and we have to share that information. Thank you very much.

The Chair: Thank you for your presentation part. We are running out of time, but how about if we extend it a

little and have one question from each of the parties, starting off with the Liberal Party.

Interjections.

Mrs Harley: This must be women's day or something.

Mrs Y. O'Neill: I have to say that because I think you are the first two women who have come together, certainly the first all-woman delegation. I want to congratulate you on that.

I think every deputy minister in this government could get some good advice from your presentation. You have it right down. The budget is the main policy document of any government; we hope some of your ideas will be seen in our budget document. I will turn to Monte.

Mr Kwinter: I have had the privilege of visiting IBM and seeing its operation and how it retrains its people, the whole process. It really is a miracle what the company has done. Without really trying to get too controversial, the thing that really stands out is, would you have been able to have done this if you had been unionized?

Mrs Harley: We are a non-union environment. We have a model that works very well for us. We are not anti-union. We have many members in PEG that have very effective unionized workplaces. I believe companies have personalities and traditions that they believe make them effective. Communications and education and training are things we believe in very strongly. I cannot comment because I can only say this is what works for us, but I believe I could bring to these hearings PEG representatives who would talk about equal success stories in their environments.

The key is that all the workplace partners, whether union or non-union, understand and have common goals, trust each other, have good communication vehicles and work towards keeping the company productive and competitive and keeping the values of the workers obviously forefront in that whole exercise. I do not know that the models make any difference. One of the things we believe very strongly about in the labour proposals, however, is that we do not seem to feel there is room in there for a non-union model, in the preamble, and that is obviously something that we as a company react to.

1710

Mr Carr: I think you are very interesting. I have always been somebody who is very interested in the management style. Reading as much as I can, I think we can learn a lot. I had a lot of questions, but I would like to do this one. You give us hope, because people would say: "Well, IBM is such a big company. You can do that with a small company; you can't with the biggest." You have shown you can do it with one of the biggest companies in the world.

In order to achieve that, and I am thinking now of the Ontario government, with 90,000 employees, we would like to do the same thing, as legislators. How would you suggest we do it? Because what happens in governments is we always have checks and balances. We put the Ontario Municipal Board in because we will not give anybody the authority because they might run wild and make strange decisions. Consequently the decisions go so long, we get

waiting lists. Would it be to streamline and decentralize that?

As you know, we have got different levels involved. You have got the federal government and it even makes it more difficult. One of the ways it can be done is to force it from the economic standpoint, to say to a department or ministry, "You're going to reduce by 10%." That does not necessarily get you all the efficiencies that you talked about. As a government, how would you see doing it? Would you start with the financial aspect of it and say, "You are going to reduce by 10%, therefore you are going to have to be more efficient and get rid of the secretaries and so on," or do you start with a program and then phase out the money? Which comes first in your estimation?

Mrs Harley: I will let Barbara comment and then I will just add a couple words.

Ms Caldwell: I ran a small manufacturing company and I do not know that it makes much difference. Before you can do any of that, all those things fall out of the vision of the company, or the government. I think before you can make any of those kinds of moves, you have to know where you are going. That takes leadership whether it is in government or business. Out of that vision comes a strategy and out of a strategy comes the tactics, the way you make it happen, and that might be decentralization. It does not happen easily, because you have to retrain people. It is a very different mindset.

But without the vision it cannot happen at all because otherwise people do not understand why. I would also suggest to you that another way that companies are doing it—certainly IBM has done, and our small company did it—is that you have to incent people differently. You have to give them incentive to reduce.

We talked about the fact that we used to measure the level of managers on the number of people who reported to them, but that is not on any more. Now you have got to find ways to plug them in—"reduction" and "lean and mean" are the buzzwords. That is what is going to give them the brownie points. Once you get them bought into it, then it begins to happen all the way through the organization, or out of the organization, because I think the organization would be much flatter.

Mrs Harley: Just one quick comment. The larger you are, the more difficult it is. In fact, people are always saying we in Canada have such a disadvantage because of our size, that we are so small. I think we could turn that into an advantage. Some of our companies are much smaller than our counterparts and that means you should be able to change things a lot faster. But it has got to start at the top and it has got to involve everyone. It has got to involve the employees, every idea. What are the jurisdictions in government? That is where I would start. In each one of your areas, who does it the best? Go find who does it the best. Learn from business in that area, if there is a comparable organization, and then start putting your vision together.

Ms Caldwell: The other question is: What is the choice? Because it really is basically choice for any of us.

Mr White: When I saw your name on the agenda I was a little nervous. I was thinking, gee, I had a presentation

earlier on from a member of your group—possibly outside of your formation—and it was one of those “anti-OLRA, but I have not got any alternatives to it” kind of presentation.

The Chair: Could you get to the question, Mr White.

Mr White: I was very impressed with your presentation, with the range of values that you put forth. I found it very exciting. In regard to the OLRA issue and to some of our comments, in the province of Quebec they have a different labour relations climate than we have here, one in which they supposedly have a flexibility and a team approach which we do not have as much here, and which you have evidenced obviously at IBM and elsewhere. I wonder if you have any ideas as to how you would see the kind of values that you have spoken from the outset being actualized in terms of labour relations or in terms of employee relations, where it is a non-organized work setting.

Mrs Harley: Let me try that one. You have to learn from every other jurisdiction, but the bottom line is that whatever you learn you have to apply to your own environment. There are lots of things in Quebec that work well in Quebec about which we should say, “If it’s good, let’s adopt it.” I can speak just for our Toronto plant, for example. We operate a very effective plant in Bromont, Quebec, but our supplier network in the province of Quebec is very different from that in Ontario. The main link with the Bromont plant is across the border in Burlington, Vermont, and there is a lot of traffic back and forth, but not a lot of same reliance on local suppliers.

Over the last six months of being involved in Project Economic Growth, the thing that just astounds me is how we all say the same words and really do not have the same meaning behind the words. As a country and as a province, and just as businesses and other economic partners, we have to get a mechanism to understand the meaning behind the words and try to find some common ground. I think this particular government in Ontario is in a unique position to help us do that. I could not imagine labour and business coming together for Mr Mulroney in today’s environment, but I could imagine that the current government in Ontario does have the ability to bring the economic partners to the table.

We have to understand what the needs are for these pieces of legislation. Listening through a lot of the hearings just personally, it sounds to me like we have labour law that is just hung up in bureaucratic, legalized processes that are not helping any of the constituents. If that is the problem, we have to fix that, but we all have to understand that that is the problem. I think it all starts by trying to get people together to find a forum to talk. We are very optimistic that we can bring it about. You need new mechanisms. Old paradigms do not work any more. On this one

issue, I think the old paradigm of taking this through the traditional process we do not think is going to be very effective.

Ms Caldwell: If I can just add to that, I think that what we are hearing and what the other parties are hearing is only what the media says we are saying. It is our feeling that people sitting across the table from one another very quickly find common ground, in whatever venue or whatever the issue is. You cannot do that if you are artificially working at odds. So this is why I think we are so concerned with getting parties together and moving forward on the process. If it needs to be changed, then that is what needs to happen.

Mrs Y. O’Neill: On a point of information, I think we should correct the record, at least for our committee and for Barbara. This is not the first time that pre-budget consultations have taken place. This whole process was begun by the former Treasurer, Mr Nixon, and I think that should be on the record.

Interjections

The Chair: I took it as a point that we are trying to open it up more. This is what the last line was.

Mr Johnson: Mr Chair, also on a point of order: It is not the first time that we have had just women make presentations either, just for the committee’s information, but I will say that every time just women have made presentations, they have been excellent.

The Chair: I would like to thank you for appearing before this committee. Being last is sometimes being in the best position, because we had an extra 10 or 15 minutes. I appreciate your input into this committee.

Mrs Y. O’Neill: Mr Chairman, is this agenda for tomorrow updated?

The Chair: You are asking on this agenda. At 11:20 we have the Council of Ontario Construction Associations and at 2:20 we have the Ontario Restaurant Association. At 10:40, we do not have a group to fill in at that particular time.

Mr Sutherland: Mr Chair, I was wondering just before we go, if we could not get an all-party approval to extend the time for the Ontario Pharmacists Association. I think there are a lot of issues related to health care, budget costs, etc, that if we could get them for a full hour overall to allow more time for questions that would be helpful.

The Chair: Let’s see, if at least we had 10 minutes for each party—let’s see how long their thing is, and we could extend it up to an hour.

Mr Sutherland: All right, fair enough. Thank you.

The Chair: This committee is adjourned.

The committee adjourned at 1720.

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**Standing committee on
finance and economic affairs**

Pre-budget consultations

Budget process

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de l'Ontario**

Première intersession, 35^e législature

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des débats
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Le mercredi 12 février 1992

**Comité permanent des finances
et des affaires économiques**

Consultations prébudgétaires

Procédé pour déterminer le budget



Chair: Ron Hansen
Clerk: Todd Decker

Président : Ron Hansen
Greffier : Todd Decker

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LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Wednesday 12 February 1992

The committee met at 1010 in room 230.

PRE-BUDGET CONSULTATIONS

The Chair: Good morning. We will resume the pre-budget consultations for the standing committee on finance and economic affairs.

ONTARIO PHARMACISTS' ASSOCIATION

The Chair: I would like to welcome the first group here to the committee. It is the Ontario Pharmacists' Association. If you would not mind identifying yourselves for the purposes of Hansard, then you may begin your presentation.

Mr Cruickshank: Mr Chairman and members of the standing committee on finance and economic affairs, my name is Gary Cruickshank. I am president-elect of the Ontario Pharmacists' Association. With me here today are Shirley Moffts, assistant executive director, and Gary Sands, manager of government and public affairs.

Before I go further, I would like to draw to your attention one error in our submission. It is in the listing of the references on page 9. Number 4, instead of reading "ibid," should read "Report of the Pharmaceutical Inquiry of Ontario, July 1990."

The Ontario Pharmacists' Association, or the OPA, is a voluntary professional association representing over 4,000 pharmacists in Ontario. The OPA provides a range of services to our members and we strive to enhance the standards and image of our profession in the interest of pharmacy and the public. We also negotiate with the Ministry of Health under the Ontario drug benefit program.

On behalf of our elected council we would like to thank the committee for extending the invitation to our association to appear before you today and participate in your pre-budget deliberations. In the context of our current relationship with the Ministry of Health, the opportunity to convey some of the concerns of the OPA to the government through this legislative committee is deeply appreciated. We understand this committee will be looking at a range of government programs that account for large public expenditures, which certainly include the Ontario drug benefit program.

Within the framework of the health care system in Ontario, the ODB program accounts for about 5% of the Ministry of Health's expenditures. Yet prescription drugs are an integral and essential component of our health care system, and as the 1990 Report of the Pharmaceutical Inquiry of Ontario pointed out in reference to the ODB program "the problem of cost must be kept in perspective."

While there is general acceptance that inappropriate prescribing and drug therapy application can have an adverse impact on an individual's health, many sometimes lose sight of the fact that therapeutic advances, appropriate prescribing and rational drug utilization has contributed, in

the words of the pharmaceutical inquiry, "to improving both the quality and length of life of the people of Ontario."

The original concept of the ODB plan was to remove financial barriers as a factor in determining a patient's medication compliance. If we continue to accept that premise, then our priority now must be to fully utilize the professions to maximize patient compliance and the rational use of medication. However, given the relatively rapid rate of growth in ODB expenditures, we can appreciate the government's desire to review the program.

In fact, the first announcement of an ODB review, on April 29, 1991, by Treasurer Floyd Laughren, was welcomed by the OPA, in that accompanying his announcement was a commitment that this review was part of a "new management system in health care, in partnership with health care providers."

Unfortunately, that "partnership" failed to materialize, notwithstanding a further series of announced intentions to review the ODB program on May 14 and October 2 of last year and January 21 of this year. Each reannounced review was similarly cloaked in the same promise to consult and work in partnership. To date, we regret to say that there has been no consultation between either the Ministry of Health, or the treasury board and the OPA on any aspects of the ODB program review.

It is our contention that the failure to consult and involve others in planning decisions is not in anyone's interest and serves only to develop an adversarial climate. This closed door approach is also contrary to the repeated commitments of the government and, in the long run, does a disservice to the public of Ontario.

Pharmacists are key to the delivery of the ODB program, as we are the front-line providers in direct contact with consumers. But we recognize that pharmacists can and must play a more significant role in development of a more cost-effective drug benefit program. Our desire is to work with the government, other professions and consumers in looking at ways to control costs while at the same time striving to preserve quality of care. Cost containment in one area can simply transfer costs to another area. Improper utilization of medication can result in other problems. As the Senior Citizens' Consumer Alliance has stated:

"In 1990, some 4,000 Canadian seniors died as a result of complications with their medication. Each year, somewhere between 5% and 15% of seniors entering hospitals are admitted with a 'drug' problem—the direct consequence of either too many drugs, the wrong dosage, or the failure to take medicines properly. Experts say that most of these problems with medication are preventable."

It is our hope that this committee can prevail upon the Treasurer and the Minister of Health to take a more constructive, open approach which will yield greater long-term results. The partnership we see is one in which

government, pharmacy and consumers can continue to work together on an ongoing basis in managing the program. In fact, as Minister Lankin said on January 16, the problem with our health care system is not that it is underfunded, but that it is undermanaged.

The input of consumers is especially important since we know that the government interest and public interest are not always convergent. Already the OPA has seen examples of attempts to cut ODB costs that have, in our view, given less priority to the question of quality than we consider appropriate. We hope this committee will agree that the public deserves a more rational way to deal with the need to contain the escalation of ODB costs.

Our association would suggest, Mr Chairman, that the most important contribution to ODB reform this committee could make is to recommend to the Treasurer that a collaborative mechanism be established that can allow us to address the challenges government and pharmacy face and present better opportunities for successful, long-term reform.

Accordingly, it is not our intention to bring a list of specific recommendations to this committee on the complex and difficult issues facing the drug benefit program. Our suggestions, views and experience must take place in the context of an ongoing dialogue with the Ministry of Health at an appropriately senior level.

This process could also help prevent a repetition of the short-term and shortsighted measures taken by the Ministry of Health, such as the freezing of the professional fee paid to pharmacists under the ODB program. I quote again from the Report of the Pharmaceutical Inquiry of Ontario, which pointed out:

"The costs associated with the average dispensing fee, the average number of claims for non-prescribed drugs, and the average costs per claim for non-prescribed drugs, remained at levels consistent with changes in the CPI. The increases associated with these components were 3.2% for dispensing fees...clearly, these costs did not contribute in any important way to the overall increase in the costs of the ODB program."

In fact, the inquiry found that the three major factors responsible for the rate of increase in the ODB program were the number of claimants, the average number of claims for prescribed drugs per claimant and the cost of prescribed drugs. "Increases attributable to dispensing fees, claims and costs of non-prescribed drugs are minimal."

These observations were echoed by the Premier's Council on Health, Wellbeing and Social Justice in October 1991:

"ODB has grown tremendously over the past decade, posting an average annual increase of 19%. Costs have been fuelled by increasing drug prices, the introduction of new drugs, extension of benefits, the growth in number of recipients and an increase in claims per recipient."

However, rather than working with pharmacists to address these challenging systemic issues, the Minister of Health instead opted to freeze the ODB professional fee paid to pharmacists. This step was taken shortly after the minister received the report of the mediator coming out of the OPA-MOH negotiations.

We draw your attention to the report of the mediator, Dr Brian Segal, in that many of his comments and recommendations may be of interest to committee members. One of Dr Segal's non-fee related observations was:

"There are a number of specific areas raised by both parties during negotiations where collaboration between the OPA and the ministry could have an impact on reducing the long-term costs of the program while ensuring a fair and equitable dispensing fee. Both parties have much to gain from a sustained period of consultation on a variety of pharmacy and ODB issues. Such consultations should occur outside of the fee-negotiating process. It is therefore recommended that the ministry and the OPA establish a joint consultative committee."

The OPA strongly supports this recommendation, which could provide the vehicle for examining issues such as utilization, changing demographics, alternative forms of compensation for pharmacists and other issues either party may wish to review.

1020

A closed-door approach to ODB reform is neither appropriate nor constructive. Only by working together can we deal with cost escalation without eroding our quality of care.

We all must plan better, manage better and share responsibility together. Pharmacists can and are willing to play a greater role in planning, managing and delivering our drug benefit program. But as Premier Rae pointed out in August 1990: "A monolithic system in which one insurer has all the political cards can't work without checks and balances: professions free to speak out on the quality of care; a partnership in which planning decisions about the system emerge from a genuine dialogue and not from the cabinet room alone; above all, a sense of fairness and pluralism when it comes to the management of the system. These are all essential if the health care system is to maintain the confidence of everyone working in it, as well as the public it serves."

Mr Chairman, once again, thank you for allowing us this opportunity. We will try to answer any questions members of the committee may have in the time remaining.

The Chair: Okay. It was agreed by the committee yesterday that each caucus would have 10 minutes for questions, starting with Mr Kwinter.

Mr Kwinter: Thank you very much. It seems to me that when we talk about the ODB, we have three components. We have the government, we have the pharmaceutical manufacturer and we have the pharmacist. The pharmacist is really the meat in the sandwich because he is being pushed from either side. I would just like to get your comments. To give you an example, I understand Valium is probably the most prescribed drug there is. What does the brand name Valium sell for? Do you know offhand?

Mr Cruickshank: I do not know offhand.

Mr Kwinter: More or less?

Mr Cruickshank: I guess we have the formulary.

Mr Kwinter: The reason I am asking is that there is an incredible discrepancy between the cost of Valium, the

brand name, and the generic. I would like to, just for the record, know what that discrepancy is.

Mrs Mooffs: The BAP, the best available price listed for Valium—five milligrams is a common dose—is 0.0872 cents per tablet. The best available price for the lowest interchangeable brand is 0.0064.

Mr Kwinter: We are talking nine times more expensive for the Valium as opposed to the generic, which chemically is the same. What happens is that you have a situation where a patient comes to the pharmacy and if the doctor prescribes the brand name Valium, the pharmacist has no choice: He must dispense the Valium. Is that not correct?

Mr Cruickshank: The physician would have to indicate on the prescription, in his own handwriting, “no substitution.”

Mr Kwinter: Right. I am just using that as an example in that we have a problem where there is this wide discrepancy in the cost of drugs that are interchangeable. Under the ODB I think your mandate is that you must dispense the cheapest-priced drug that is interchangeable.

Mr Cruickshank: You have the option of dispensing anything which is interchangeable, but reimbursement to the pharmacy will be based on the lowest BAP listed in the formulary.

Mr Kwinter: Do you think that is an area where there can be some significant savings made by trying to come up with a regime, particularly for ODB users, where it is absolutely mandatory that the lowest-priced comparable drug is dispensed?

Mr Cruickshank: You are referring there I think to the elimination of “no substitution,” which is currently allowed under the program. I think that has been put into place for a number of reasons. One is to give the opportunity for the physician to request no substitution, for a variety of reasons which presumably the physician and the patient have discussed. There is certainly some opportunity there for savings if in fact that was the mandate that was put forward. I am not sure whether or not that would continue to provide the best care to each and every patient in the province. There may be cases where it is important, based on a drug, based on the individual receiving the medication, that they continue to receive the medication by a particular manufacturer.

Mrs Mooffs: If I could just comment, I think that is a policy decision, as Gary said. Rational drug therapy is the right drug for the right patient at the right time in the right quantity, etc, and that would be a policy decision whether you wanted to take that approach. There are experts in place, the Drug Quality and Therapeutics Committee, who deem whether a product should be included in the drug formulary. Perhaps that is a question that they would be prepared to answer.

Mr Kwinter: I forget what they call the committee, but it is the quality assurance committee. What do they call it?

Mrs Mooffs: Drug Quality and Therapeutics, DQTC?

Mr Kwinter: Yes. They certainly evaluate all drugs to see if in fact they are interchangeable. Once they make the

decision it is, then I would assume they are satisfied that there is absolutely no difference between the two, other than the name. There may be some therapeutic benefit for doctors telling a patient, “You’re going to have such and such a drug,” because the patient thinks that drug is going to be good for them, but I do not see any economic reason for doing it, because in order for it to be listed in the formulary as an alternative, it has to be absolutely identical. Otherwise it will not get listed.

Mrs Mooffs: I do not know if we are prepared to comment on that. For interchangeability there are criteria established by the DQTC and the ministry and they would have that information. Interchangeability is really what is allowed by the formulary, as opposed to being 100% the same.

Mr Kwinter: Could I just go to another area? One of the other concerns I have, and I hear this all the time, is that there are lots of patients, particularly the elderly, who are overmedicated. When they die and people go into their apartments to clean out their effects, they open up their medicine cabinet and find they have enough of a drug to last them for 15 years. There seems to be no control at the pharmacy end as to how many refills—I mean, if the doctor leaves it open-ended, these people come in, particularly if they are on ODB where they do not have to pay for it, and just keep taking more and more of these drugs and feeling that if one is good, two has to be better and four is even better. For a lot of these patients, the drugs are doing them more harm than good. Do you have any comments on that?

1030

Mr Cruickshank: There are perhaps a number of issues you have raised. Certainly one of the things a pharmacist does do in filling prescriptions or repeating prescriptions is to try to monitor compliance in terms of, does the patient appear to be complying with the directions that have been established by the physician? In terms of repeats, that is something we try to do on a regular basis. That has I guess become somewhat more difficult in that the mandate is that we now dispense as written and it is certainly in the mandate of the physician to order much larger quantities of medication, so the interval between prescriptions being repeated may certainly be larger than it was historically and that does make it more difficult to try to monitor the compliance a patient is experiencing in terms of taking his medication.

Mr Sands: I think one of the things we would add to that too is that you have touched on a number of issues. Drug utilization and the need to allow or provide for some mechanism of allowing for more communication between physicians and pharmacists was dealt with at great length by the Lowy report; those are some of the recommendations. Our association supports the Lowy report very strongly, and that is I guess our concern about it gathering dust at the present moment. We would like to see that report dealt with seriously, because a number of the issues you have talked about have been examined in great detail by Dr Lowy and the commission. We would be happy to pursue the kinds of points you have raised with the government. Unfortunately, we have not been meeting with much success.

Mr Kwinter: Do you have any comments on the implementation of a user fee for ODB participants? Let me give you an example. The reason I am asking these questions is that I am fairly close to the pharmaceutical industry, not only because my brother-in-law is a pharmacist, but I hear stories where people will come in—these are senior citizens—and pick up their prescription and the pharmacist will say to them, “That’s \$2.” They say: “What are you talking about, \$2? I am on ODB; I don’t have to pay anything.” “There’s a \$2 item in there that’s not covered.” “Well, then, take it out. I’m not going to pay for it.”

There is a situation where a user fee—and I am not talking about an onerous fee, but just a token fee—would be to the benefit of some of these patients, because some of them react only on the basis of economics, and if it means that they have to put out \$2, that they do not want to put out the \$2, they think they are entitled to all their drugs free. Do you have any comment on that?

Mr Sands: In terms of user fees, I am not sure that our council has a set position on that. I understand from the minister that Dr Sutherland has looked at this area and has made some recommendations and the cabinet has had a couple of discussions on it. But the original concept, as we said in our brief, was that there should be no financial barrier to patient compliance with medication, so if that is going to be changed, I really think that is a political or a policy decision that is going to have to be made by this government. Other than that, I do not think we really have more comment.

Mrs Moffts: Maybe I can just make a comment. I think that is an opportunity where the pharmacist could get involved in educating the public and the patient to the role of medication and maybe influencing public expectations. The initial prescription is written by a physician in response to a patient, and maybe that is definitely a role the pharmacist could play and maybe that would be an alternative. As opposed to, as Gary said, providing financial hardship and a barrier to the patients who legitimately need medication, we could play a very valuable role in educating them.

Mr Carr: When you look at the health care costs, you know the debate that is going on. The Quebec government is now taking a very hard look at it. All governments in Ontario, whether they be Conservative, NDP or Liberal, have had problems. The costs have gone up 12% virtually every year. We have tried various things to cut the costs. We were going to freeze the doctors’ salaries—no increases—so instead of billing five people a day, they bill 10 and the costs still go up. So you are not alone. They take a look more on the line-by-line item and say, “There’s where the costs are; now here is an ad hoc quick fix.” It has not worked, and again I see that in a non-partisan way. The Liberals could not fix it, Conservatives had problems and the NDP is having problems with it as well.

Very specifically, my hospital, in its quest for funds, is now getting involved in operating a pharmacy. Some of the pharmacists are upset as a result of that. I understand there are about 14 hospitals in Ontario where that is happening. Hospitals are looking at parking fees; anything

they can do to make some revenue. What is your association’s feeling on that, about hospitals trying to get more money by trying to expand their revenue and infringe maybe on your territory? Do you have any policy or thoughts on that?

Mr Sands: I guess the only thing I could say at this point is no, the council does not have a position on it, but I would draw to the committee’s attention that we represent pharmacists and not pharmacies. So we represent hospital pharmacists as well, and that kind of issue has not—

Mr Carr: It is a tough one.

Mr Sands: It really has not come to us in terms of it being a problem, and I say that quite honestly. We have not had it discussed at our council. We would be glad to maybe raise that issue and we could get back to you to talk about that.

Mrs Moffts: I just want to stress that we see the community pharmacists as an important network in the delivery of health care in the province. We have done a good job, we want to do a better job and we do not see any reason why that should change.

Mr Carr: And it is a difficult question because you look at it from both sides and it is very difficult. I say that because I suspect, maybe as forewarning, that it may become a bigger issue. I have had calls on it and maybe some of the other folks have as well.

Getting back to the broader issue, the problems we have in health care: Quebec is taking a comprehensive look at the health care costs. Again, not party lines; you have Liberals, Mr McKenna the other day talking about what he is going to do and so on, and you have Conservatives saying things and NDP. One of the suggestions I thought might be helpful is to have a comprehensive look, like Quebec is doing, at all health care costs, because if not, you have heard a socialist government saying the system is going to collapse. So it is non-partisan. Everybody is in trouble with this. It is the biggest cost. We are going to be strangled if we do not control it as the population ages.

Do you have any suggestion, long term, about—and I am talking now about the process, not specific solutions—how you would like to see it done rather than this ad hoc basis where we come along and say, “Boy, costs are going up, so let’s tackle the pharmacists, let’s go after the doctors”? Long term, how do you see us putting together a plan with public input from all the health care front-line workers and all parties to get some type of solution? Maybe you could come up with some suggestions.

Mr Sands: I would love to. I think the first thing I would like to ask this committee to do is to try and advise the Treasurer or the Minister of Health to implement the mediator’s recommendation and to look at what the mediator said and Dr Lowy said and many others have said, that there must be some mechanism put in place to allow for an ongoing dialogue, not just with the profession, but to allow for the input of consumers to deal with some of the larger systemic issues and the problems we have.

We are dealing with them right now on an ad hoc basis. Freezing the professional fee of pharmacists may appear to

be great PR to some people, but it is minimal and it is not dealing with the problems, and the problems have clearly been identified. This is not my opinion. It is based on the ministry's data. They are clearly laid out, these are the problems, and we do not understand why the ministry is reluctant to talk to our association on dealing with these issues so we can deal with things like utilization, education; those are the kinds of things that will reduce costs.

I know they are very difficult and complex, but we have to start talking to each other. We have to start dealing with them. If we do not, we are going to be confined to dealing with the problem on an ad hoc, short-term basis, and I am saying that is not good enough. We are not satisfied with it. We are like the mediator, who says he has been puzzled as to why this has not been done; what is the problem? We cannot get an answer from the Ministry of Health. Why is there this reluctance to enter into a dialogue to deal with the problems you are talking about and to come up with some solutions?

Mr Villeneuve: I was in this Legislature when Bills 54 and 55 were passed. Have they been positive or negative to your organization, now that you have lived with them for a while, or is the government abiding by 54 and 55?

1040

Mr Sands: Generally, there are some areas of the legislation we do not feel they are living by, obviously. I have to represent the interests of our association and say that certainly in terms of the collective bargaining process they are not living by the spirit of the legislation.

Recently the auditor's report came out and there were a couple of hits in there, if you want, that I think the pharmacists took unfairly. We feel we are taking them because there are certain mechanisms that are laid out in the legislation in terms of monitoring and prices and those kinds of things, and the ministry is just not doing what it is supposed to be doing. Those are the kinds of things I can think of off the top of my head that we are having problems with.

In terms of the pricing, I guess the major concern is that setting a fair and equitable fee for the pharmacists has been the major problem. The spirit of the legislation has not been lived up to. We have a process laid out that establishes not just the collective bargaining process—even going into mediation. We went into mediation with the ministry. The minister even suggested the name of the mediator. We went through the process, and when the mediator made his recommendation, she just tossed it out. Even the non-fee aspects. To me, that is not living up to the spirit of the legislation.

Mr Villeneuve: I have had several of my constituents come to me and show me the invoice where the dispensing fee was four times the cost of the medication. How does one explain that to somebody?

Mr Cruickshank: The fee really is a professional fee as opposed to a dispensing fee. On each and every prescription we fill we do go through a process which involves many professional aspects. It involves reading the prescription, verifying the validity of the prescription, ensuring that there are no contraindications with medications the

patient is already taking, or perhaps in the case of multiple prescriptions being presented at the same time, again checking for adverse drug reactions, things of that nature, and certainly consultation with the patient, who is the end user or the end result of that dispensing process. On every prescription that same professional process takes place irrespective of the ingredient costs of the prescription.

Mr Villeneuve: I guess you have explained as far as a professional fee is concerned. I guess you should call it a professional fee, because someone sees that as a dispensing fee, and he says, "Who does this guy think he is?" It should be called something slightly different.

Mr Cruickshank: That is part of, I think, our education process in trying to educate the public of the role of the pharmacists and what their expectations can and should be when they present their prescriptions so that it is perceived as a professional fee. That is what we are endeavouring to do.

Mr Villeneuve: It is a bit of a misnomer.

Mrs Moffts: If I could just add to that, if the prescription costs were 15 cents or \$15 that professional fee would be the same, because it is the same professional activity. It is independent of the cost of the medication.

Mr Villeneuve: I realize that. The formulary: I come from I think what is known as area 1, and I have fairly close contact with professional people in your profession. I gather now that it is frozen. I have always been told the formulary is two years behind or a year and a half behind, and no one is updating. Do I read this correctly that your professional fees have now been frozen?

Mr Sands: The professional fees have been frozen, yes. We have been really without a contract or a negotiated fee since June 1990. The minister just rejected the recommendation of the mediator and said, "It is frozen."

Mr Villeneuve: Did your formulary—

Mr Sands: The formulary is the prices. The minister has also indicated—and this is where it gets a little interesting—that the prices for drugs will be frozen. That got a lot of media play, but the fact of the matter is, she can freeze the level of reimbursement to the drug manufacturers, but the drug manufacturers, and many of them have indicated to us they have no intention of freezing their prices—the prices they charge to the pharmacists are not going to be frozen. The pharmacists will have to eat that.

Mr Villeneuve: Time is up, thank you.

Mr Drainville: Thank you very much for your presentation. Let me explain a little bit, as I begin, the standpoint from which I come. I am an Anglican priest, and although you may wonder what that has to do with drugs and drug benefits, it means that I have been in contact with a great many people over a decade who are people, very often elderly people, who are involved with pharmacists on a regular basis to receive drugs.

I want to say that it has been my experience over the last more than 10 years of working with people in that situation that I have found many occasions in which senior citizens have been far over-prescribed. I can talk about from experience and I can also talk about my father in

Montreal, whom I just left a week ago, who was in a similar situation with 23 prescriptions. Many of these people go to the same pharmacist each time; we are not talking about going to different pharmacies and therefore causing problems, but really the same pharmacist.

The need for a detailed study to take place is very important. You write, and I agree with this comment of yours, "The input of consumers is especially important, since we know that government interest and public interest are not always convergent." I agree with that, but I would go further and say that the pharmacists' interests and the public interest are not always convergent either, hence the need for us to study this particular area very carefully.

In the whole of our society, whether it is pharmacies or in terms of the medical care or dental care people receive or whatever, consumers are used and abused by our system. Somehow we have to find a way of establishing some sort of link with those who are consumers, to ensure that they can share their questions, concerns and sometimes anger and frustration at the way things are being handled on their behalf.

I would not sit here and claim I know the mind of the Minister of Health, because I certainly do not. Under the present circumstances of every government having to rationalize the expense of health care right across Canada, we can see that people are scrambling. They are scrambling to understand why the costs are what they are; why the system is not working as effectively as it needs to work. The only point I would make at this point would be to say, on behalf of the Minister of Health, that some of the problem you might have, looking at your presentation here in terms of discussions, may be due to the fact that there is a huge area for the Ministry of Health to look at right now. It may be that one of the difficulties is just getting a handle on where you go first, because everything interrelates. You look at one thing and that has an effect on this, that and the other thing, so it is like an octopus, only instead of eight arms, it looks like it has a million arms.

I just want to make that comment, but also say that there are things in here that I find very helpful, and your recommendations are very clear. That is helpful to this committee as we look at what kinds of responses we can make here, because you have put some of these recommendations in and indicated some of these reports that have been helpful to you. Hopefully we can go further and see what some of these reports recommend, and that will be helpful in our process as we write our report. Thank you.

Mr Sutherland: Mr Kwinter mentioned about there being three components to the drug system: the pharmaceutical manufacturer, the pharmacists and the patients, the consumers. I would like to suggest there is a fourth.

I am still not clear about this relationship between the doctors who actually prescribe the drugs and you, as pharmacists, who have to dispense them. I will tell you that my constituents get most upset when they hear stories of doctors prescribing over-the-counter drugs such as aspirin which goes on a benefit plan, and a dispensing fee being charged for something that is already there and presumably already a markup charge being given on that. I need

to understand: If a doctor prescribes something like that, such as a bottle of aspirin or, in some cases that I have heard, laxatives that are available over the counter, must you fill that prescription?

Mr Cruickshank: If it is in the Ontario drug benefit plan and the physician writes it, yes, we have to.

1050

Mr Sutherland: Okay. It is maybe unfair to say this to you, because maybe we need the pharmaceutical manufacturers and the physicians—I know the CMA is doing a new policy in terms of a code of conduct between doctors and their relationships with the pharmaceutical industry. I have a good friend who works for a pharmacy and deals with doctors and selling drugs and not only that, but letting them know what new drugs are available. I must tell you, I am a little perturbed when I think of some of the things they do in terms of convincing doctors that their drugs are in the best interests when maybe they are not. How do we improve this relationship or how do we make it more accountable so that those who are footing the bill have a sense of faith in the Ontario drug benefit plan?

Mr Sands: I think it is going back to what Mr Drainville was saying just earlier, because I think some of his comments are well put. I really hate to belabour the point, but we have to look at some of the recommendations again of Lowy. He has touched on just what you have said. He saw the relationship, or quite honestly maybe the lack of an adequate relationship, between physicians and pharmacists as being a key concern. That should be addressed by the ministry and a committee should be established composed of physicians and pharmacists to talk about certain issues.

Another issue, the concern with seniors in terms of the drug utilization review that Mr Drainville was raising, we are particularly concerned about too. In fact, we wrote to the ministry back in 1990 suggesting a drug utilization review with physicians, with consumers. It took them over a year to even respond to the letter. They are still dragging their feet on the thing. We want a drug utilization review with the input of consumers and physicians and whoever else is appropriate. A smart card would be another helpful innovation. They are dragging their feet on that one.

We try to do what we can to improve that relationship and make people more aware through initiatives such as Pharmacy Awareness Week, those kinds of things, but we cannot do it alone. We do need to have a partnership. I am not saying we are the white knights or anything. Obviously there are things that we have to do better; we recognize that. But we have to all start talking to each other. Government, consumers, doctors, pharmacists—let's get together in some sort of collaborative mechanism and start dealing with the problems. We are not.

Mr Sutherland: In addition, picking up on the question about generic drugs that Mr Kwinter asked, I had a person who worked in a pharmacy come into my office concerned about some of the things that they had seen, the amount that a person was able to claim on the drug card. One week they were getting laxatives; the next week it was the opposite type of medication. The concern they

expressed to me was that there are two types of forms or something; that for example, if they come to you and you are going to give them a generic prescription rather than the brand name, they can go back to a doctor and get a specific type of form—I forget the code name for it—and if the doctor says okay and signs that code name, then you have to give them the actual brand name even though the generic may work.

Mr Cruickshank: That is basically what we were alluding to before. The process is that for someone covered under the Ontario drug benefit program for a no-substitution prescription, the physician indicates “no substitution” and completes what is called a PC-34. It is a form which the pharmacist then is required to submit, along with a special paper billing, to the ministry in order to be reimbursed for the actual brand dispensed as opposed to going to the lowest product cost.

I would just like to go back, too, to the question you raised on the over-the-counter products and the reference to ASA. One perhaps is clarification, in that the suggestion was that on all of those over-the-counter products there is reimbursement at cost plus a dispensing fee. In actuality a good number of the over-the-counter products in the formulary are reimbursed to the pharmacist at a markup, much more the traditional front shop system, so you are not actually paid a dispensing fee yet you still perform that same professional function in filling the prescription.

Your ASA example is an excellent one, because ASA is a product which is of great concern with a number of other medications. Someone, for example, taking Coumadin should not be taking ASA, because potential problems can occur. So to just say OTCs with a broad sweep of the hand may in fact be a problem, because it is a medication that can certainly interact with other medications.

Mr Sutherland: Just one other: This may be a tough question to have a pharmacist answer, but in general, do we have a problem with either too much drug use or too much inappropriate drug use or mixes of drugs, from the perspective of the pharmacists' association?

Mrs Moffts: I think that has been identified, for example, in the Lowy report. The goal of pharmacy is rational drug therapy, so experts more qualified than us have identified that there is a problem. It is along the lines of what Mr Drainville and you yourself said. The initial process is a physician and a patient. They both come to that interaction with expectations. They come with a certain amount of information, the physician's information which you mentioned.

In the Lowy report the commission came up with the idea or the recommendation that the information going to a physician may not be totally unbiased. That is one of their recommendations, that they need a source of unbiased drug information. We agree. We consider the pharmacist a valuable source of drug information. The physician and the pharmacist should have more interaction. They should be trained together. That is one of the recommendations of Lowy. Their education in school should be together so that they learn about drugs together and build that relationship.

Just as an example, there is a lot of documentation on the overmedication of seniors. There are papers every day

talking about the number of seniors who present at emergency departments with adverse drug reactions and the cost of hospitalization. Just to give you an example of what is possible, in another province, New Brunswick, they did a study on six months' usage of benzodiazepines, which are a very commonly prescribed sleeping pill or tranquillizer type of product. From the information they gather from drug programs not unlike ours they now are able to target specific interventions which will reduce the inappropriate use of those products and the length of use of those products. That is with the cooperation of the pharmacists, the physicians and the consumers. That is a pilot project we could do in Ontario. We have a lot of the same data; we just need the will to pull it all together and involve all the participants. Let's do something.

The Chair: Thank you for appearing before this committee. I think the committee members have learned a lot of things in a lot of areas that might have to be looked into.

We will adjourn for 15 minutes, until 11:15.

The committee recessed at 1057.

1124

COUNCIL OF ONTARIO CONSTRUCTION ASSOCIATIONS

The Chair: The next group we are going to be hearing from is the Ontario Restaurant—no, the Council of Ontario Construction Associations. I had everybody scared on that one. Gentlemen, if you would not mind identifying yourselves and your positions with your association, and if you can leave some time at the end of your presentation for questions and answers, we will be running until 12 o'clock.

Mr Frame: My name is David Frame and I am executive vice-president with the Council of Ontario Construction Associations. Gary Whitelaw is the chairman of our tax committee and is president of Mollenhauer Construction. Bill Empey is with ARA Consultants and is the technical expert to our tax committee on these issues.

I want to start today with a bit of an explanation. We were called in at the last minute to meet in front of you. We are very happy to meet with you today but we are not quite as well prepared as we would like to be. We have been preparing for the Treasurer's process and were able to get together late yesterday and put together a presentation. The notes you have in front of you give an overview of what we are going to talk about to you today.

As I said, we are the Council of Ontario Construction Associations. We represent 49 member associations consisting of trade associations, local and mixed construction associations and prime-constructor builder associations in Ontario. A full list of our membership is appended to the documents we have given you. We have the responsibility of speaking for the broad industry, including industrial, commercial, institutional, engineering and residential sectors, on a wide range of issues related to provincial legislation and regulation.

The COCA tax committee has been extremely active over the last little while monitoring and making presentations to the working groups under the Fair Tax Commission and of course most recently in producing research and proposals for this spring's budget. Our pre-budget

presentation for the Treasurer will be delivered to his office this Thursday. It will contain an expanded package of research from what you will see today. I will make sure that you receive a copy of all this material through the committee clerk. I am now going to pass it over to Gary Whitelaw to proceed with our presentation.

Mr Whitelaw: Good morning, ladies and gentlemen. It is a pleasure to be here. Mr Chairman, that might have been a bit of a Freudian slip at the beginning. Probably about the only thing worse than being a contractor these days is being a restaurateur.

I am here today to speak as both the president of a construction company and an architect and broadly on behalf of the industry. I thought we might start with a summary of our proposals and then try to take you through the rationale behind those proposals.

We believe there are three broad initiatives required right now in order to restore confidence, promote economic renewal and social justice. They fall in the category of a very much needed boost to capital spending in Ontario, which is something that is being talked about by the government of Ontario as well as many of the other provincial governments across the country. We feel this should follow the categories of joint federal-provincial housing assistance through the RRSP withdrawal program—we endorse that—a national program to improve our infrastructure and some separate provincial initiatives to stimulate \$1.5 billion in capital projects. We believe many of these could be funded through the private sector. We would like to elaborate on that later. We believe that whereas there are serious fiscal problems for the public sector in certain pension funds and other pools of capital, there is an ample source of capital available that remains to be tapped.

We believe it is a time to consider some tax initiatives. Mr Empey has come up with what we think is a rather innovative suggestion for a refundable investment credit in exchange for loss carry-forward benefits. We believe this investment credit could again spur some capital development and economic growth. We would like to cut the small corporate tax rate from 10% to 8% to fall in line with some of the federal initiatives under tax reform and to boost activity in a much-needed area, the small business area.

We respectfully suggest a cut in the corporate tax rate for construction companies, from approximately 15.5% to 14.5%, to fall in line with other industries that face the same cyclical concerns. We also feel we must note that, in recognition of the deficit concerns, there needs to be continued action to address the operating expenditures. We suggest that we limit discretionary provincial expenditures and programs through the current review process we understand is taking place.

Those are our recommendations.

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I thought I might step back and talk a little about the construction industry for a moment. The construction industry broadly represents contractors, architects, engineers, building material suppliers and equipment manufacturers. It may not often seem so because of the fragmented nature of the industry, but it is in fact the second largest industry

in the province. We will throw a couple of support graphics up as we go.

There are over 120,000 unionized workers in the province. This is characterized by a great many small firms. The majority of firms are in fact such that they have annual revenues under \$250,000. That is one of the reasons the small business tax credit is of paramount importance to our industry, and it is another reason this industry is being so hard hit by the current slowdown—because of the small and fragmented nature of the industry and the fact that these are not large corporations with substantial capital reserves to see them through the economic slowdown. It is an extremely volatile and risky business, in fact, orders of magnitude more risky than other industries.

There is a major multiplier effect that results from spending. The dollars that go into capital projects translate not only into wages for tradesmen on the sites but also to trucking contracts and printing and banking and a host of other ripple-effect businesses that are positively affected by new capital spending and very detrimentally affected by any cutback in capital spending.

A longer-term point but one which we feel is very critical is the relationship between proper infrastructure and productivity and competitiveness downstream. Not only are we concerned about the immediate and short-term impacts in our industry, we are also very concerned about the difficulty we may have being competitive on a global scale if we do not continue to maintain our aging infrastructure and invest in the future. We are going to dig ourselves into a position that will be exceedingly difficult to overcome in future years if we cut back heavily on capital spending.

Government spending has traditionally increased the volatility in this sector, in large part because the spending has been procyclical and not countercyclical. In fact, government spending represents 51%, more than half, of all non-residential construction in the province. Last, as we have indicated in our brief to the Fair Tax Commission, construction actually pays above-average taxes because of its inability to claim certain deductions and preferences that other industries can.

Ontario's current challenge: I certainly do not need to elaborate on this. I am sure everybody in this room is far more familiar with the challenges than I am. But I want to state for the record that we understand the pressure the province is under and the fact that there are no short-term solutions to these problems. For the province of Ontario this is clearly the worst recession on record, much worse than the 1981-82 downturn. That is particularly the case, as some of our further graphics will indicate, in our industry.

That cyclical problem is supplemented by structural problems, free trade, globalization of trade, GATT talks and the potential impact there. All those things, together with the federal cuts to transfer payments, could not come at a worse time.

The impact of this broad economic problem is dramatically magnified in the construction industry. Unemployment is now heading towards 30%, and by our estimates will exceed 30% by next month, March 1992. That is three times the national average. We are talking about 110,000 unemployed people in the construction industry. You can

see by the graphic chart the level of unemployment relative to the national average.

Bankruptcies: We are exceeding again by orders of magnitude the level of bankruptcies in the last recession. That is true for most industries—for retailing and for manufacturing in general—but we have probably twice the level of bankruptcies in the construction industry that we do across all other industries. Here is a graphic to demonstrate that. You can see by the chart on the far right, the white being the construction industry and the cross-hatched being the average of all other industries, that we are in very dire straits in the construction industry.

I should also note anecdotally that while certain segments of the construction industry may lead the economy in recovery, such as the housing industry; single-family housing, most other sectors of the construction industry lag. Certainly, large projects, non-residential construction, lag economic recovery. There is so much excess capacity that needs to be utilized before new projects are commenced that the majority of our members will lag the economic recovery by at least 12 to 18 months. Anecdotally, in my firm we built \$150 million worth of construction in 1990, \$100 million worth in 1991 and I am hoping we will do \$30 million worth next year. It is not getting better, it is getting worse every day.

Our recommendations and the reasons for them: Boost capital spending in Ontario. We have listened with interest to the government's proposal to utilize the RRSP withdrawals and we endorse them. We think it is practical to set certain limits, so that all of one's retirement earnings are not invested in a home and there is provision made for a rainy day and retirement, but we do feel that, with certain caps, it is a very prudent thing to do.

Again, we endorse the program for national infrastructure. We believe the province should be investing in approximately \$1.5 billion in capital programs. We believe there are various ways these could be financed. For example, there has been talk of an Ontario investment fund. There are enormous pools of money in large pension funds, OMERS, teachers', Ontario Hydro, as well as a great many corporate pension funds that are active investors in the real estate market. One of the big problems these funds have, however, is finding quality product to buy. The vacancy rates are climbing and the covenants of so many tenants are questionable that there is an oversupply of capital and an undersupply, right now, of private sector real estate considered to be of investment grade.

There are a number of projects which are now being innovatively financed, such as Terminal 3, private sector ownership, public sector long-term lease, the new Ontario Hydro complex in North York, the CBC building and a number of federal buildings which are slated to go that way. There are in fact hospitals in Newfoundland which are being privately financed and Mr McKenna, of course, has been calling for private sector financing of portions of the Trans-Canada Highway.

We believe these pension funds would be all too eager to invest in some of the public sector spending that is greatly needed, with much more certain returns through public sector tenancies than would be the case through the

private sector. So we would urge you to recommend the channelling of these funds into investment in public sector capital spending, through either a pooled pension fund along the lines of the *caisse de dépôts* in Quebec or through other initiatives that encourage individual pension funds to invest in capital spending.

The benefits for Ontario: I have touched on some of these, but there are numerous research links that tie improved productivity to higher infrastructure investment. Examples of these, of course, for any of us who have driven along the QEW, are the traffic delays, the aging problems that we have with the Gardiner Expressway and getting on and off the ramps. Free trade is a fact of life. We need to be able to move our goods and services southward to the US faster and with less congestion. Perhaps one of the only good things about the current recession is that it is easier to get on and off the QEW than it was a year or two ago; but we are greatly concerned that, unless we are able to find ways to boost spending through this period, as soon as the economy recovers—and it will—we will be back to the same productivity problems we had in 1987, 1988 and 1989.

1140

Another major advantage to the province is that now is an awfully good time to buy construction. By most standards, the cost of construction has dropped 25% in the last 18 months. There is an opportunity to be countercyclical, not procyclical, to buy this construction at much lower cost, much better quality. One is able to get good tradesmen, qualified people today, and the ensuing quality is of a much higher standard than it was through the boom of 1987-89.

Additionally, there is the multiplier effect that we have talked about. In the government's own brief last week it mentioned that the multiplier effect for capital spending—road improvements, for example—raised provincial output by \$1.4 billion for every \$1 billion of investment, whereas the government cited tax reductions having only a \$700-million impact for every \$1 billion of tax credit.

Clearly, there is a need for additional educational capacity. Again, we believe that some of these educational facilities could, in fact, be owned or leased by the private sector, as could courthouses. There is no reason why not. Benefits for construction are clear. The cyclical declines impose an enormous human cost on our industry and one which we feel will be very difficult to counteract in the latter half of this decade, because there are simply fewer and fewer people entering the construction industry these days. The workforce is aging; there are very few skilled tradesmen under the age of 50 and we are going to find ourselves with enormous increases in labour costs and declines in productivity when we get around to improving our capital structure if we do not do something soon. Obviously, improved financial results will come with long-term productivity and competitiveness.

Our second category of recommendations is tax initiatives. Mr Empey is recommending a refundable investment credit in exchange for current loss carry-forwards. There would have to be some ratio. We are not proposing a dollar-for-dollar credit. Perhaps, if there is time for a question and answer period, we could respond in a little more

detail. But the concept would be one whereby a corporation could in effect trade in its loss carry-forwards for a tax credit utilized specifically for the acquisition of equipment or buildings or some form of specific capital investment that gets the economy working again.

There are a great many companies holding millions of dollars of tax loss carry-forwards and quite frankly they do not have any income these days against which to apply those carry-forwards. For some ratio, be it 50 cents on the dollar or what have you, many of these corporations, we believe, would trade in these potential loss carry-forwards for tax credits to acquire the plant and equipment they need to be competitive on a global scale. Our company, like so many others, is being told we have to go global. We have to compete in a broader marketplace. But the simple fact is, we do not have the profits, the retained earnings or the financing capability to get out there and borrow the funds from a bank in order to be competitive, so we are caught in this vicious circle that is very hard to break. We are recommending here an opportunity to use loss carry-forwards in a way that gets the economy working again.

We believe the small corporate tax rate should be cut from 10% to 8% at the provincial level to complete the process of tax reform initiated in 1987 by the federal government. My understanding is that the federal government did cut the tax rates for small corporations, but the province did not do likewise. We are recommending the same. For reasons that are rather complicated, we would recommend a cut in the corporate tax rate for construction from its current 15.5% to 14.5%.

Our brief, which was submitted to the Fair Tax Commission, goes into great detail as to the reasons for this, but our research, which has been quite detailed, indicates that construction is paying a disproportionately high burden of tax at the moment. I am sure that almost every industry representative who comes in front of you makes this claim, but there are other cyclical industries such as mining, forestry and certain portions of manufacturing that have deductions and offsets which do not exist for the construction industry and we feel these should be considered.

I would say in passing that if tax reductions, although we strongly advocate them, are not acceptable, at the very least let's not increase taxes in the corporate sector. We cannot withstand the kind of blow to business confidence that would represent. I remind you that in our industry the vast majority are small firms, owner-managed, and an increase in corporate taxes for them is identical to an increase in personal income taxes at a time when there is simply no capital available and no investment available to absorb these additional costs.

We believe the tax credit will counter the incentives that are being offered in the United States and luring so many businesses and industries to the United States, and that quite frankly there will be a minimal loss of revenue in the near term as there are just not that many corporate profits being generated outside the financial sector, for example, to be taxed.

Our last category of recommendation is restricting current operating expenditures. Again, we would urge the government to continue its program of limiting discretionary

programs through current review and seek to reduce our longer-term operating costs through attrition and perhaps early retirement or other forms of dealing with the problem on a reasonable and medium-term basis.

I guess the best analogy I would draw in a personal sense is that we would liken investment in our infrastructure to a household or an individual's investment in an RRSP or a personal pension plan. Just because you are having trouble paying the rent does not mean you can afford not to contribute to your pension plan or your RRSP. Somehow we have to find a balance between contributions towards the future, investment in the future, and current operating expenses.

I guess as a citizen and as a contractor, I am very concerned that the easy solution to the current deficit is to avoid investment in the future until it gets easier to do so. We feel there is a very hard reality that has to be addressed and a balance attained between investment in the future through capital spending and control of what we would call the rent, the current operating costs.

We believe there are ways to minimize those costs. I am sure they are all being studied in great detail. Certainly the decentralization program that has been considered may have a short-term increase in terms of the relocation costs but again we believe that a number of the facilities being considered—the OPP headquarters in Orillia, for example; there are no end of pension funds that would be delighted to own that building and lease it to the OPP. Many of those short-term relocation costs, we believe, would be happily borne by the private sector which is looking for investment-quality real estate.

Thank you for being so patient. If time permits, we would be quite happy to address any questions.

The Chair: We have five minutes for each caucus, sir. Mr Villeneuve.

Mr Villeneuve: Thank you very much for your presentation. I know labour reform is not part of, and has not shown up at all in, your recommendations. I see that 120,000 of the construction people are presently unionized. What sort of signal are you getting from the business people regarding the labour reform presently being looked at by this government?

Mr Whitelaw: Maybe I will ask David to respond to that. He is involved with our labour relations committee.

Mr Frame: I think it is fair to say that our membership is very concerned with the proposals that have come forward. We have done a lot of work in that field and we have been making representations to Mr MacKenzie, etc. Like you, we get letters every day, we get phone calls every day. There are a lot of upset people in the construction industry and the reason is really twofold.

The first one is investment income structure, and the concern is that construction prospers only when we have a growing economy. As Gary showed you, the situation we have been in for the last two years, without a growing economy, has hurt construction greatly. The concern is that is going to continue because of a reform like the proposed labour reform.

The second one is how it is going to change our relationships with the construction unions. There largely is an extremely good relationship with the constructions unions right now. We believe it is somewhere close to a balance. Everybody can argue where that balance is, but we believe it is at least close to a balance and those reforms will tilt the balance very drastically to the other side. We believe that will make our labour relations much tougher, not easier and smoother, so we are very concerned with those proposals.

1150

Mr Villeneuve: You speak of using funds from RSP. I understand presently many of the RSP funds are being used to varying degrees in construction. You have not touched upon something that I think should be looked at by all levels of government, that part of mortgage interest should be included as a tax exemption up to a certain amount, which would promote the ownership as opposed to the rental of accommodations. Maybe you can comment on that.

The Americans have that in place and it certainly has contributed to wanting the benefits of ownership as opposed to rental accommodations. I know we all live somewhere. If you do not live in a home you own, you live in an apartment. I guess construction has got to look after this, but I think the promotion of home ownership would have very definite positive effects on the construction business. You can maybe comment on that.

Mr Whitelaw: I think that is a very fair comment. We also have several condominium projects and are seeking, like so many others unfortunately, to try to sell these condominium units in a market that is not very interested. The simple fact is that the economics of home ownership in the absence of any deductibility of interest does not make sense in Toronto today.

I can rent the same unit for about two thirds what it costs me to service the mortgage. We are seeing prices plummet dramatically as a result of that. It has got to the point that the only way home ownership makes sense is if you believe in the capital gain and the run-up in values, which has created a severe problem in the industry.

We are all seeking to try to minimize the speculation, the run-up in land values, the lack of affordability that results from that kind of inflationary game. But if we are truly into a low-inflation environment, going forward, it makes the economics of home ownership even more difficult in the absence of this kind of deductibility.

It certainly makes it much more attractive for an employer or an employee to relocate south of the border when for roughly the same salary they can deduct their mortgage costs. It is something that is of real interest to the housing industry and something that is of broader interest to the economy of the province.

Mr Sutherland: Interesting. Just picking up on the RRSP, we are still researching, trying to find out how much RRSP money is actually used here in the country for development in terms of some of the proposals the Premier has come up with.

You mentioned the ripple effect, and that is the other question, because we have many groups come in and say, "Spend on this because it has this type of ripple effect within the economy." You mentioned what was put in the fiscal outlook document, the 1.4 for one. How does that compare with other areas? Is housing construction better than road, better than sewers in terms of the type of spin-around? If we are looking at a tight fiscal situation, where specifically within construction should we focus to get the most bang?

Mr Whitelaw: I wonder if I could make a brief comment and then respond in writing in the next week or so to that question.

Mr Sutherland: That is great.

Mr Whitelaw: We do not really have a good answer and I do not want to mislead you. One of the reasons we think investment in this industry makes sense is because there are not only short-term ripple effects but because there are long-term productivity and competitiveness effects. Once we see our way through the current problems we are all facing, as I am sure we will, we are then going to have to face the bigger question of our competitiveness on a global front. To that end, I believe infrastructure spending in areas that broadly improve our competitiveness and our productivity as an economy are better than ones that are narrowly focused to the particular individual, so I would say here airports, roads, educational facilities, water and sewer to the extent that they are becoming dramatically limiting factors in some of our outlying regions.

If one is going to make a rather generic widget, it probably does not make sense to do it in downtown Toronto. It might make an awful lot of sense to do it somewhere along the Queen Elizabeth Way or somewhere along Highways 400 or 11. But many of those communities simply do not have the water and sewer capacity to be able to accommodate these industries.

Those are the particular kinds of investments that I believe have not only the short-term multiplier effect but the very dramatic long-term competitiveness and productivity effect that we desperately need.

Mr White: I am interested in the RSP, or the retirement savings plan issue you brought up in terms of renovations, home construction. I have also read recently a proposal by an MP, David Barrett. He was suggesting a solid, large fund, somewhat similar to the American one, where registered savings plans could be invested and those moneys would be used by municipalities and provinces in terms of infrastructure repairs and extensions. That would be basically, as you were suggesting, a countercyclical fund which could be used selectively. Any comments on that proposal?

Mr Whitelaw: Yes. If I understand the question, that is not so much the RRSP but larger pension plans.

Mr White: That is right.

Mr Whitelaw: Corporate or public service pension plans, etc. Yes, we think that makes enormous sense. Again I have to emphasize there is no shortage of money. OMERS, poor old OMERS, gets \$6 million a day that it does not know how to spend in investment; \$250 million, I

am told, was allocated to real estate last year and they fell well below that target and have no idea how they are going to spend the next \$250 million because they cannot find appropriate real estate in private hands to buy. The really good-quality real estate is still not being sold. There is distressed real estate around, no shortage of that, but the pension plans do not want anybody else's problems either.

There are numerous opportunities for these funds to be channelled in a coordinated fashion into good capital programs that make economic sense, not boondoggles, not just driving construction because there is a supply of cash out there, but things that are needed. There needs to be very careful review, no question. We should not be necessarily expanding medical facilities when we do not have the operating funds to run the wards, that sort of thing, but there are a number of programs that could be financed. I believe in the law of large numbers. The fact that you would be diversifying any one fund's risk by participating in a pool makes a great deal of sense.

Mrs Y. O'Neill: You said you made a representation to the tax commission. I just wondered how specific you were. Maybe you could say a little bit about the kind of deductions and offsets that would be helpful.

Mr Whitelaw: Our proposal to the Fair Tax Commission was specifically to the working group and the commission on minimum corporate taxation. Our very strong recommendation there was that a corporate minimum tax was not necessary to be promoted at this point in time, that it is still too early to tell what affect the 1987 tax reform is having.

Most of the early indications suggest that tax reform has caught most of the abuse that existed previously by way of certain preferences that allowed profitable corporations to effectively avoid tax year after year. Second, our understanding is the working committee itself has been entirely unable to find one approach that satisfied the concerns of simplicity, enforceability and, frankly, productivity. In the absence of the working committee being able to come up with one model it could endorse and that makes sense, again, let's not dabble at a time when the economy is so fragile, when investor confidence, when consumer confidence, when corporate confidence is at an all-time low. We are probably not going to raise significant revenues by way of a corporate minimum tax anyway, so let's wait a while, see what comes out of the 1987 tax reform, get the appropriate data and assess the situation downstream.

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Mrs Y. O'Neill: Thank you. That is very helpful.

Mr Phillips: I appreciate some of the creative suggestions you have made here. My own worry is that we do nothing that kind of misleads us over the haul. I do not know whether you have been through the budget or not. I personally think the way capital is now accounted for is bogus. They should be showing a depreciation charge of maybe \$4 billion. In tough times you spend \$8 billion and

in good times you spend nothing, but you show a constant number.

Mr Whitelaw: Absolutely.

Mr Phillips: I think it is a deliberate attempt to understate the deficit, the way it is there. But I have made my arguments. We voted against it, but the legislation passed anyway. I worry similarly about misstating moving from the government building something to the government leasing, because that is very simple to do, but then you pay out of operating the 20-year lease costs. I do not mind doing that if you state it in a way that everybody understands.

Similarly with the use of the pension funds. The government is going to use them in a different way, as you know, as a venture capital fund—that is the plan now—as opposed to capital. But I think you make a reasonable point. OMERS just bought the Scarborough Town Centre, I believe. Maybe it would have been better to use the OMERS funds to purchase some of the capital, because we are borrowing offshore when we could be borrowing there. I think there is some merit in it.

My biggest worry—I guess I am more making a statement than a question—is that if all we do is mask the real numbers and we find that we have, in the interests of getting through this, burdened ourselves with some long-term lease costs that we cannot manage even in good times, we have done ourselves a disservice.

I think you have been creative in your suggestions and some of them are very worthy of looking at. What we owe to the public is to say, "We are raising our capital in a different way and we are going to spend the capital in a different way." As I say, right now I think the way the government has done it is the Premier wants to get up and say: "Our deficit now is only X billion." Put all the capital into that fund. They are going to spend \$16 billion in capital over the next three or four years and show an expense of maybe \$2 billion. I think it is bogus.

The Chair: I would like to thank you on behalf of the committee. All of us here appreciate your being able to be here with the short notice you received. I think, getting on to 12 o'clock, everybody has the same idea about the restaurant association. We are all looking at going and getting something to eat.

Interjections.

The Chair: Again, I say thank you.

Mr Whitelaw: We are submitting a brief and have been invited to participate in the round tables next week. If it would be helpful we would be pleased to submit copies of the brief.

The Chair: Okay, fine. It helps all the members here, the way you have laid out your areas, and it is very easy for us to pick up on a lot of your points, too. It is done well. Thank you.

This committee is adjourned until this afternoon.

The committee recessed at 1205.

AFTERNOON SITTING

The committee resumed at 1429.

ONTARIO RESTAURANT ASSOCIATION

The Chair: We will resume our pre-budget consultation. I would like to welcome the next group, the Ontario Restaurant Association. I announced you earlier in the day, just before lunch. I must have been getting hungry at that time. It is good to see you here. It is 2:30 and we have 40 minutes. We are running until 3:10. If you would not mind identifying yourselves and your position in your association, you can start your brief.

Mr Luk: My name is Fred Luk. I am the president of the Ontario Restaurant Association and owner and operator of the Filet of Sole Restaurant. With me are Paul Oliver, director of government affairs of the Ontario Restaurant Association, and Paul Bachand, vice-president of Cara Operations.

On behalf of our association, I would like to say that we are very pleased to appear before you today, have the opportunity to discuss the current health of the foodservice industry in Ontario and outline some of the major challenges facing employers and employees of our industry.

The Ontario Restaurant Association is a non-profit industry association. It represents the restaurant and foodservice industry in Ontario. The association was founded in 1931 and currently represents approximately 2,500 members, representing thousands of foodservice establishments throughout Ontario. Our association represents restaurants, both licensed and unlicensed, contract caterers, accommodation establishments, quick-service restaurants and many other foodservice establishments.

Approximately 80% of the restaurant industry in Ontario comprises small businesses. Many operations in our industry are struggling to survive. The costs of doing business for the hospitality industry in Ontario are increasing at an alarming rate. As well, many operators find the administrative and legislative environment in Ontario overwhelming. Additional government legislation that is introduced must recognize the special needs of small business operators so that the small employers are not burdened to the point that they are inhibited from creating new jobs.

The food and beverage service sector is a major employer across Ontario. More than 234,000 Ontarians work in food and beverages, servicing restaurants, caterers, taverns, hotels, sport arenas, leisure clubs and other establishments. The foodservice industry plays an important role in providing employment opportunities for members of society who otherwise face great difficulties in finding employment. Relative to other industries, the restaurant sector employs a significantly greater percentage of young, female, uneducated and minority workers.

In 1989, 63% of foodservice industry employees were women, as opposed to 48% of workers in all Ontario industries combined. The industry is a particularly important employer of younger people, especially young female workers. In 1989, the average age of food and beverage service industry workers was 25.5 years old, compared

with 36.3 years old for all Ontarians holding paid employment. The restaurant industry provides a key source of employment for those who have not completed high school or do not have workplace experience. Some 43% of our employees have less than a secondary school diploma.

The restaurant industry is very proud of the jobs and employment opportunities it provides to Ontarians. Recent statistics indicate approximately 30% of all members of the workforce in Ontario received early job training and experience through employment in the foodservice sector. This is especially important to new immigrants who work in the restaurant industry while learning the language and for unskilled or inexperienced workers who are upgrading education while working.

Our industry should be viewed in the broader context as a training ground for all of Ontario's labour force. Unfortunately, due to the recession and government policies, the restaurant industry's ability to hire these individuals is being severely limited.

Mr Bachand: The past several years have been particularly devastating for the food industry in Ontario. In 1990, real industry-wide sales declined by 3.2%. This was followed in 1991 by a dramatic real sales decline of over 18%. All sectors of the foodservice industry have been severely impacted by negative sales. The fast-food sector, which traditionally has been resistant to recessionary impact, has also been severely affected. In 1991, the real growth in the take-out and delivery sector declined over 25%.

Bankruptcies in the industry are at record highs. Bankruptcies in 1990 increased over 85% over 1989 and 1991 has witnessed a further increase in the number of bankruptcies. Profit margins on sales, which compared to most other sectors are typically very thin, 2% to 5%, have virtually evaporated, as has financing. Several major chartered banks and lending institutions have stopped all loans to the industry as a matter of corporate policy, few will even examine new loans and many have cut operating lines of credit 30% across the board and have justified this action as a result of the November 1, 1991, minimum-wage increase.

The restaurant industry has been severely hurt by the current recession, but the import has been enhanced by the introduction of the goods and services tax, unfair taxation policy, a decline in tourism, cross-border dining and a significant increase in the cost of labour. As you may be aware, the hospitality industry has been very severely hurt by the current recession and recovery in our industry will be much slower than in most other sectors.

The hospitality industry has been hurt by the high Canadian dollar, the GST, cross-border shopping and a marked decline in tourism. Unfortunately the hospitality industry has been squeezed on both sides during this recession. Not only have sales declined, but our industry has been hurt by escalating costs. This combination of a decline in sales and an increase in operating costs has enhanced the job losses in our industry. Many of the cost increases are a result of provincial government initiatives. Our industry has been

hit by an increase in operating costs as a result of increasing payroll tax, a 22% increase in the youth minimum wage and an 11% increase in the general minimum wage in 1991. These significant increases in the cost of doing business have cost jobs in Ontario. The restaurant industry in Ontario has lost more than 50,000 jobs over the last 18 months.

As we understand it, the government of Ontario is now examining taking additional initiatives that will further increase job losses in the hospitality industry. These initiatives include another major increase in the minimum wage, the elimination of the youth differential, more payroll taxes and an increase in the provincial sales tax. These policies are a direct disincentive to job creation and cannot be absorbed by most operators in the hospitality industry. Instead of encouraging small employers to hire new employees and create new jobs, these policies will result in additional job losses.

We would like to draw your attention to two new studies examining the employment impact as a result of the changes in the minimum wage. The first study, commissioned by the Ministry of Labour, suggests that a 10% increase in the minimum wage would lead to a loss of up to 26,700 jobs in Ontario. The second major study, by the Institute for Policy Analysis at the University of Toronto, found that planned increases in the minimum wage will cost women 45,000 jobs in Ontario. Many of these job losses will be in the restaurant and hospitality industry.

Mr Oliver: I want to draw your attention to some of the graphs we have included in the package. Table 1 examines the sales decline in the industry. You can see how dramatic that sales decline is, compared even to the last recession we had in the early 1980s. This has been a significant impact on our industry. Between 1989 and 1991 is the first postwar period that sales of food consumed away from the home has actually declined. It has declined 4% over that period.

Table 2 outlines the significant employment decline in our industry that started in 1987 and has continued right to 1991. We saw a significant decline between the latter part of 1989 and 1991.

Table 3 outlines, as I was saying, the food consumed away from the home, partly as a direct cost. The consumer is so cost-sensitive now. We have situations where we are competing against prepared, ready-to-eat foods in grocery stores that have zero tax applied to them. All our restaurants have 15%, including the PST and GST put together.

Table 4 gives you some numbers on bankruptcies in our industry, which are proportionately much higher than even in the last recession. The 1991 figures are for the 11 months ending November 31. The breakdown for our industry has not been released yet. It should be within the next couple of days.

On the retail tax in Ontario, already Ontario restaurant operators must compete with the combined sales tax rate of 15% on food items and 17% on beverage alcohol. This is a major burden placed on the foodservice industry, especially when competing with ready-to-serve or prepared meals that can be purchased tax-free in variety stores or grocery stores. The Ontario Restaurant Association is very

concerned about the obvious unfairness in the tax system, which penalizes service establishments that provide employment through value-added services.

The 1989-91 period witnessed the first postwar decline in the level of food consumed away from the home. This decline in food consumed away from the home is a direct result of the unfair tax policies, which favour prepared foods that are sold as if they were groceries.

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The Ontario Restaurant Association is also very concerned about proposals that would increase the rate of the retail sales tax. An increase in the PST would have a severe impact on sales and employment in our industry. An increase in the rate of the PST would discourage tourism, increase cross-border dining and further disadvantage our industry relative to our competitors in the grocery industry.

The Ontario Restaurant Association is also concerned that the increase in the retail sales tax would be a severe blow to consumer confidence. Only through increased consumer confidence and spending will Ontario emerge from this current recession. We believe that sales tax increases would only enhance and lengthen this recession and have a severe impact on our industry.

Increasing the retail sales tax is also, our association believes, a regressive tax policy. Increasing the rate of taxation on restaurant food increases the cost to those members of society who can least afford it. Although restaurant meals might be thought of as a luxury, this is not the case today. Lower-income households spend a larger proportion of their income on food consumed away from the home. I will refer to table 7 for this. As you can see, the breakdown of family income as a percentage of food consumed in restaurants declines as the income level goes up, but applying a tax across the board hits everyone in those categories and enhances the rate of taxation paid by lower-income people.

Increasing the rate of tax on food consumed away from the home would force low-income households to pay a greater share of their income to cover the increased costs of restaurant meals.

Mr Luk: I would like to talk a bit about beverage alcohol taxation. The taxation of beverage alcohol has reached a point of diminishing returns with severe consequences for restaurants and all licensees. As well, declines at LCBO and in the marketplace indicate clearly that the alcohol taxation has reached a saturation point. Unfortunately alcohol taxation is applied in a manner that unfairly impacts licensed establishments. This is an unfairness that needs to be rectified.

Consumers in Ontario are very familiar with sticker shock when they buy beverage alcohol at retail outlets. People are aware, however, that licensees receive no concession for their volume purchases. We pay retail prices and we charge retail-plus prices to our customers. With the application of GST and PST, often restaurant markups are applied. Restaurant consumers actually pay approximately 25% more taxes for beverage alcohol purchased in licensed establishments. This practice of higher-layer taxation applied to licensees unfairly disadvantages restaurants and acts as a direct disincentive to tourism and convention business.

To rectify these obviously unfair taxation practices, the association recommends the immediate elimination of gal-lonage tax, which is 12% applied to licensees, and a reduction of the 10% alcohol tax applied in licensed establishments to the standard 8% PST.

I would like to refer to table 6. It is an excerpt from the *Toronto Star*, dated December 15, 1991, which tells about the provincial revenue generated from beer taxes compared to the federal government revenue.

Also, I would like to talk about international competition—back to table 5. The foodservice industry in Ontario not only faces significant competition domestically, but the restaurant industry must compete in an international market. If we were located in London, England, or in France, we would not have the problem, but our neighbour is the USA.

Approximately 21% of tourists' expenditures are spent on food and beverages. The cost of food in restaurants is a major detriment to a tourist's and convention planner's decision on where to travel and visit. I talked to Mr Bill Duron, president of the Convention and Visitors Association of Metropolitan Toronto. He told me that last year two major groups wanted to book conventions in Toronto from the United States. One was 3,000 and the other was 4,000. They came into Toronto and had a meeting with him and the hotel people. They were waiting to sign papers, book the rooms and so on and so forth, and they went across the street to have lunch in one of the restaurants. After they spent \$4 for a beer and \$10 to \$15 for a meal, they said, "Forget it. We're not coming to Toronto."

Adding to the costs of operating with an accumulated 15% to 17% sales tax applied to customers' bills are significant hidden taxes, such as the employer health tax, liquor taxes and the commercial concentration tax, as well as significant increases in the cost of labour as a result of recent and planned increases in the minimum wage. These costs have led to the impact of discouraging tourism and convention businesses in Ontario.

Aside from discouraging international tourism in Ontario, the restaurant industry faces a growing problem: cross-border dining. Restaurant operators in the border regions of Ontario have been severely hurt by competition from American foodservice establishments, which compete from an unfair playing field. As in table 5, if you look at the price of chicken, the price of beer and the average cost of the minimum wage, we are severely handicapped if we are going to compete with our big neighbour down south of us.

Mr Oliver: Those numbers in table 5 are converted into Canadian dollars, so it is a direct comparison.

Mr Luk: The last thing I want to talk about is the business meal expense. In 1987, the federal Department of Finance reduced deductibility of business meals expenses from 100% to 80%. Recently the restaurant industry in Ontario has become very concerned about initiatives by the Fair Tax Commission and the Ministry of Treasury and Economics to review the possibility of reducing the deductibility of business meals expenses in Ontario. This policy would result in a further disincentive to conduct business

in restaurants, and would have a severe impact on sales and employment in the foodservice industry.

Mr Bachand: The increasing level of payroll taxes has taken a serious toll on the foodservice industry. Because the industry is labour intensive, increases in the level of payroll taxes, especially the employer health tax, have a disproportionate impact on the foodservice industry.

Recent analysis by association members suggest the rate of payroll taxes has increased from 2.7% of revenues in 1989 to 4% in 1991. Increasing payroll taxes is a direct disincentive to job creation. To encourage job creation and limit the impact of regressive payroll taxes on small businesses, the Ontario Restaurant Association encourages the government not to increase the overall rate of payroll taxes and to introduce a \$500,000 payroll exemption for small businesses.

I would like to cover briefly the changes to the Labour Relations Act. The Ontario Restaurant Association has made a reply to the discussion paper put out by the Minister of Labour, copies of which we could give you, but I would like to briefly talk about one area of key importance in that document that would hurt the restaurant industry drastically, and that is the area of replacement workers.

This proposal would have a devastating impact on the hospitality industry because it would have an unfair and disproportionate impact on our industry. This proposal is clearly designed to force businesses to close during a strike, even when only a small bargaining unit is on strike. Any disruption in business or a closure for any reason threatens the long-term viability of establishments in the hospitality and tourism sector. Because the profit margins are so slim and our reliance on cash flow for survival is so great, even a short-term interruption could force a small establishment to close permanently.

During a work stoppage our industry could not draw upon inventory or cash reserves to survive, because they simply do not exist. Any interruption in a hospitality establishment threatens the continuation of the employer, as well as many suppliers and related businesses.

The Hospitality Employment Task Force recognizes the replacement worker ban is a very contentious and polarized issue. As you will see in our formal response, we have developed an alternative that we believe will accomplish many of these things for government goals, while preserving the long-term viability of hospitality establishments.

Since the goal of the replacement worker ban has been proposed so as to limit the impact and length of long-term strikes, we propose a phase-in of the replacement worker ban only if the strike drags on, or if the parties are bargaining in bad faith. We propose that the replacement worker ban would not go into effect until after the first 30 days of the work stoppage. If either party is bargaining in bad faith, then the 30-day implementation period could be moved forwards or backwards as the Ontario Labour Relations Board instructs. This would ensure that an operator in our industry would not be forced to close permanently as a result of a short strike.

As I say, there are many other issues that were covered in the discussion paper and we have put together responses

for many of the points that were raised and some alternatives that the government could look at.

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Mr Luk: Perhaps I could add to what Paul said a minute ago about the replacement worker situation. In my situation with one restaurant located in the University and King area, I do not have an inventory buildup like Chrysler, Ford or General Motors. Every time you order a piece of fish from me, I cook it two minutes after I take the order. If I am closed Thursday, Friday and a Saturday night in any given week right now for this coming year, for three days and no cash flow, it will put 100 people out of business, out of a job. I will be out of business completely. I cannot look after the payroll. The bank will call on me immediately. It is very different when they deal with a big operation like manufacturers, when they have an inventory buildup. For our business, we do not have inventory. We cook every minute. We produce our food when you order it. I would like to stress that if possible.

In is the same thing with payroll taxes and the payroll situation. I would like to use a model that is not an ideal model, but it is an average model of a restaurant in Ontario. They sell \$1 million to \$1.5 million in business in Ontario. The average labour force for \$1 million to \$1.5 million at a restaurant in Ontario is probably about 30 to 40 employees, full-time and part-time; I would say two-thirds would be full-time. Their payroll would be in a range of \$350,000 to \$400,000 and the profit margin for that \$1 million to \$1.5 million in sales at the restaurant to the owner would be anywhere from 3% to 5% before capital repayments and corporate taxes. That is his profit.

If you close us up for three days, we are finished. At the same time, on the payroll situation, if there is any desire by anyone out there to increase the PST, they should consider that our industry is a different industry, a labour-intensive industry. You can have five people selling computer software and do \$10 million in business out there. We are out there right now looking at a 3% to 5% profit margin and we have to employ those 50 people. By increasing PST you discourage us from hiring people out there. I think that is very important to stress.

In conclusion, business and consumers are already severely burdened with high taxation, which is suffocating consumer confidence and limiting Ontario's ability to effectively respond to this recession. It is imperative at this time that the government of Ontario make the difficult decisions and cut spending. Further tax increases in Ontario cannot be absorbed.

On behalf of the Ontario Restaurant Association we would once again like to thank you for the opportunity to appear before you today. We are very interested in some of your comments regarding this very important issue.

Mr Sutherland: First of all, let me say congratulations to you in terms of your response to the labour relations proposals. We have certainly heard from many businesses that say they are opposed to them. Very few have offered some constructive alternatives and I think you should be complimented for that.

On your point about the conventions leaving, I read in the paper, I think yesterday or today, that they are also looking at expanding the convention centre because they cannot handle large conventions and are losing them because of that.

There is no doubt the industry is hurting. Looking at the graph on page 3, I would like you to comment in terms of whether there is a decline solely due to the recession, or whether you have reached a saturation point as to how far you are going to go on eating food away from home? It would seem to me there has got to be some saturation point there.

The other question I have is on the area of service. I have been talking to people in my riding who unfortunately go cross-border shopping, and more and more of them are telling me that while price is an issue, there are a lot more concerns about service. It is not just the restaurant association; it is retail here in Ontario as well. I wonder if you could indicate to us what types of training programs go on, not just in terms of training in how to serve effectively, but in terms of overall customer service. What type of thing does the restaurant association do in that way and what impact do you think that is having right now?

Mr Oliver: Perhaps I could respond to all three of those things. First, I think the percentage of food consumed away from the home is a trend we are seeing in Ontario and in Canada. It is enhanced more in Ontario. In Ontario we were actually at about 41% in 1989—these are Canadian statistics—and it is now down to 36% and may be a bit lower than the rest of Canada. That trend has not taken place in the United States. They have a higher percentage of food consumed away from the home.

The biggest drive behind that is sticker shock. When you get a \$10 meal and you have 15% tax applied to it and then a 15% tip, if it is a sit-down restaurant as well, it is a \$13 meal all of a sudden. A frozen pizza that you buy at a grocery store could be \$8 or \$9 or whatever it is, but you do not pay any tax on it. If you order it from Pizza Pizza or one of the delivery places, you get 15% applied to it. That is one of the things; it is part of a sticker shock issue.

On the service issue I will refer to table 5. This gives you an idea. Part of the service issue in a restaurant operation is that you can only spend so much on labour costs, and the consumer will only pay X amount. They will not pay more than that. What we see is that we are at that threshold now and people are starting to eat at home now as a result of the cost of eating out. But in the United States, for example for Detroit and Windsor, a table server costs \$2.90 per hour. You can have two or two and a half table servers for the cost of one in Ontario. That gives the service and the extra benefit the customer receives, but he does not pay extra for it. That is in Canadian dollars.

Mr Luk: I can talk about the training situation. I do not know the full name of the particular organization, OTEC, but it is spearheaded by the Ministry of Tourism and Recreation. It is a group of Tourism Ontario, the Ontario Restaurant Association, and the Ontario Hotel and Motel Association, which all kicked in a lot of money to certify and train foodservice operators and also the staff from

servers—waiters and waitresses—bartenders, all the way to cab drivers out there. We are very gung ho about this. It is the first that the industry has come together, both the industry and the unions, all together, to spearhead this.

I cannot tell you the full name of OTEC right now, but I sat in on the first meeting and we have an executive director already picked out and the first course is being offered by the colleges. They have one-third classroom training and two-thirds basically onsite training in a restaurant. I think we are going to be very proud of the Ontario level of service in the next few years because we are going to have better quality service coming up.

As to the expansion of convention facilities, my understanding is that it is difficult for us. If we do get a chance to bid for a huge convention. We do not have the opportunity because our facility is not big enough. According to Bill Duron, we have not had any major convention booked for the next two to three years.

Mr Phillips: I have a full appreciation of the depth of the problem. Your industry is probably as hard hit as any. My question really is, if we can only do one or two things, what are those one or two things that you think we should be trying to do or trying not to do that would be of most help to your industry?

Mr Oliver: It is very hard to narrow it down to specific initiatives. A proactive approach that the government could look at doing, as opposed to maintaining things now and not doing even more damage, are the two categories it should be divided into. Not to damage the industry more would be not to increase the minimum wage at the rate targeted. There are the three different minimum wage categories: the youth differential, the server differential and the general minimum wage and they all impact us differently.

We have actually commissioned a study from Ernst and Young that looks at the impact on employment in our industry. It will be released shortly and everyone will be provided with a copy of that. It comes out with numbers that show about 12,000 additional jobs will be lost as a result of minimum wage adjustments. We have already seen a lot of jobs lost as a direct result of the minimum wage. That is one area where the government should not want to damage the industry even more.

To help the industry is to start clarifying provincial sales tax. The system now is that if you go into a 7 Eleven store and buy one of the refrigerated hamburgers and take it to the front, you do not pay PST or GST on it. If you put it in the microwave and then go to the cash register, you pay provincial sales tax on it. But with most operators, it is not enforced that way. It is classified as a general grocery item even though it competes directly with a McDonald's hamburger or a meal in a sit-down restaurant. That system has to be clarified overall. Looking at lowering, even on a temporary basis, the provincial sales tax to stimulate the economy I think would be a significant initiative for this government to look at.

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Mr Luk: Mr Phillips, just to expand on the minimum wage situation, last year one of the hardest things to swallow with increasing the minimum wage generally was one of

the categories, the tip differential, meaning the liquor server or people who make gratuities when you go to a restaurant; they serve you and you leave a tip at the end of the meal. There was an 11% increase in that category. That summarizes into a 3% increase in total payroll. In a sense that is 3% less of a profit margin. There has been no profit margin in the last two years in most restaurants out there.

I do not think it is for the government to try to help those people. In one of my restaurants they take home a \$100 night in gratuities. We had a study done by one of our members. For every dollar of wages, they earn anything from \$1.50 to \$3.00 additional in tips. We have asked the Ministry of Labour to do a study and the last time I talked to them they said they do not have any funds to do any more studies. We asked them: "Would you mind? We'll split the funding for it. We'll pay 50% of the funding if you do the study." They were quite shocked that we wanted to have this study carried out.

I said: "You can come and look at my books any time you want. I'll show you the credit card vouchers, anything you want to look at to tell you that they're making good money." I want to promote a lot of my staff, bartenders, to management. My manager makes around \$30,000, \$35,000 or \$40,000 a year in salary and my bartenders turn the job down because they say it is a loss of income for them. I really want to stress that. In the United States and even in union negotiations in Canada, there is a differential of anywhere from 30% to 50% in minimum wage for the person who makes tips. Right now there is a 50-cent difference between minimum wage and the person who makes gratuities.

There used to be a pretty good percentage three or four years ago, but you increase it every year by 50 cents or \$1.00. Right now the 50 cents does not mean anything any more and if we change the minimum wage—

Mr Oliver: Even if you speak to the unions or organized labour in our industry, they will freely admit that they know there is a problem there by having only a 50-cent differential, because they have a situation where the back of the house, which earns above minimum wage, is getting a zero per cent increase this year and the people at the front of the house receive—

Mr Luk: The other part of the minimum wage equation is student wages. Realizing there is a pending court judgement to categorize that is a student wage, we are proposing a training wage out there in place of a student wage because again there are a lot of workers out there who are not normally hired by any other industry. We are the only industry out there hiring all those people who do not speak English or French, first time in Canada, no job experience, uneducated people. We are the major employers of those people.

The first time someone looks for a job we will likely say: "Look, we'll give you a training wage. Let's try it for a month or two and see what happens. Then we'll give you full employment, full benefits and full wages." By eliminating the student wage or the training wage we are proposing, you are only hurting those people, hindering us from employing those people.

Mr Carr: I have a question along the same line of the wages. Are you finding it difficult to get people to come into your industry with the wages still being low within our scheme of things? Are you finding it difficult for people to get jobs because of the difficult time with people—

Mr Luk: I think the perception, sir, is that wages in the hospitality industry are low, but I disagree with you. This is only a perception. In my restaurants I have about 250 staff working for me. None of them makes minimum wage. They are all making above minimum wage. My dishwashers make \$8 to \$9 an hour. It is a perception, sir. The key thing right now is people who come into our industry for a short period of time, ie, summer jobs. They have two jobs and they only can work weekends or two nights a week. Those have student wages.

I think a lot of operations would like to keep that because it gives them an opportunity and they are not the sole breadwinners of their families. They have two jobs and live at home. But full-time workers who have a family to support, are breadwinners, do not make minimum wage; they make way beyond that.

Mr Carr: You are saying you do not have a problem getting people?

Mr Luk: We had problems I guess during the heyday. Paul, perhaps you can talk about that.

Mr Bachand: The problem occurring at that time was that there were no people to get. That was being suffered across every industry, not just the restaurant industry. It had nothing to do with the wages; people were just not looking for jobs. The restaurant industry does pay well. I will reiterate what these gentlemen have said. The increase to the minimum wage drastically affected the people who were being tipped. They received 11% increases. I can tell you right now that in our company in union negotiations there is no money left for the back of the house. The people who need something are getting nothing.

Mr Carr: As you know, and you mentioned it, governments have always looked to the tax on booze, beer and liquor and so on. This government has terrible revenue problems. You have said that if you increase them you are not going to get any more revenue because people will not come out. I am speaking about restaurants that offer liquor. Do you find people are going out but not having liquor? What I am getting at is, can you somehow get around it with people going out, so that where they would normally have maybe a beer with their burger for lunch they are now just having the burger and a milk?

Mr Oliver: We are noticing that. The other trend we are noticing is that people, especially for evening dinners and things like that, are drinking at home and then going out on the road to a restaurant, which creates a problem with consumption of alcohol that way. But it also creates major problems for operators. They do not know how much people have drunk before they arrive at the establishment either. The percentage of overall liquor that is sold, both home consumer and restaurant, a couple of years ago was over 20% in licensed establishments; it is down to about 15% now.

Mr Luk: On the revenue side of it, everybody is cash-strapped and wants additional revenues and so on and so forth. I might want to talk about a simple economic or business explanation for this: 15% of booze or liquor sold in LCBO is for licensees and restaurants, only 15%. Very simple mathematics: If I buy a bottle of rye, a bottle of rum, I can sell a 40-ouncer of it 40 times and collect sales tax for you people. If there is anything that is not more profitable than anything else, it is selling to the consumer what he consumes for himself. At the same time the effect of creating jobs, the effect of bringing in tourists and making us more competitive is very important.

By having this old notion, this old idea of giving a break to the licensing operation for volume discount or wholesale prices per se and then turning around and saying, "Then we lose revenue," I think is absurd. By giving us a better break on the liquor we can create more jobs, bring more tourist dollars into this province and create more sales tax for you people. You cannot deny that. As to the old notion that by giving us a break you get less revenue, I do not think I buy that.

The Chair: Time has run out. I appreciate your presentation before this committee. You are well informed of the areas of concern in your industry.

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BUDGET PROCESS

C. D. HOWE INSTITUTE

The Chair: I am sorry we are a little late getting started; we were a little late getting started with the first consultation. You are Miss Irene Ip and you represent the C. D. Howe Institute. We do not have a brief as yet, but I guess you could get started on the budget-making process, consultation and secrecy, as I believe it is called.

Ms Ip: I think it is worthwhile putting this subject into the context of the federation since this was brought up by the federal government in its constitutional package. It is one of the least interesting to the public items that were a part of the proposals for a stronger economic union. However, I think it deserves some scrutiny since you are looking at it from an individual province point of view, but being a federation and because each individual province's actions affect other provinces and what the province does affects the federal government and what the federal government does affects the provinces and so on, anything that makes available more information in advance of the budget would probably help us have a more rational budget-making process in the whole country. On the kind of proposals the federal government was looking at, even though I do not think it is that useful to have them in some sort of legislation, I think an effort to move to this openness would benefit that whole process for the country. This is the general, federal context.

I have interpreted the way you are looking at it very broadly. I have done this because if you are going to open up the budget process to the public, I do not feel there is going to be that much gain if it is incomprehensible. I think it brings up all kinds of ancillary problems, other than simply going to the public and discussing options the

government has. They do not have sufficient background. It brings up a lot of issues that are discussed from time to time and have been brought up over the years.

I myself have written about these things for a long time. We can look at them in general terms. The way I have said we should see them is in the aspects of accountability, of comprehensiveness of the statements, of accounting standards that are standards that are recognized by a reasonably respected body so there is some similarity from government to government, and of where they are transparent so that one does not have to go rummaging around or trying to make a lot of phone calls to figure out what important things mean in it.

The government has made an effort in this direction with its Ontario Fiscal Outlook, which it has brought forward. It has said the reason for bringing this out is to generate an informed, open debate on the budget. We have to perhaps take that as a starting point, to see if this goes any distance in achieving it. I have picked out and documented a number of aspects of it that I think could be improved and that cause concern if the objective is to be more open.

One of the major problems is that when a government puts out a series of publications they frequently do not follow the same format, and usually the official documents in the public accounts come up very late and are not that widely available. The budget document seems to me to be the most public statement that is given out about the government's operations. It is possible this Ontario Fiscal Outlook might become as widely spread as that as well. Nevertheless, these types of documents should all have similarities. If one is going to have one presentation in the budget, one should be able to pick up the other document and see comparable tables.

There are many ways of putting out the government's accounts and they all have different purposes. It is probably insufficient if you want a healthy, informed debate to have just one way of putting it out. The budget has tended to put things out consistently by ministry, which is fine if that is the way the Legislature wishes to vote on things. But for the public or analysts or people who want to get involved in it, it is not that informative when one thinks of government policy because often there are different policy objectives, the spending on which is spread over more than one ministry.

A useful way of putting it out is by function. This is a well-tried way of looking at government accounts. It fits in with the way Statistics Canada puts out one set of financial statements on the government. This means you can see how much is spent on education, and you can even have it split at levels of education; on health, which again could be split into two or three categories; on the environment; on regional development, and so on. One could develop a reasonable number of levels without letting it get out of hand but without having it so concentrated it is meaningless.

The other way of presenting it is by objective. In this way sometimes you can go through the documents and make up your own set of accounts on it, but it is a lot of work and if you want to do things quickly you are probably not going to bother. This is having wages and salaries

for the civil servants shown separately, transfers to individuals, transfers to other levels of government, interest on the debt and capital spending. Those are the economic objectives of spending and that can give rise to other forms of analysis.

I would suggest that some form of consistency we are going to be able to live with for the next decade or so be thought out, so that we do not go from year to year being faced with different tables.

In particular, when I go back to this fiscal outlook, it has some rather strange tables in it. The ones there are not directly comparable to the ones in the budget. There are other tables for which it is not clear. They have interesting information, but they do not add up to anything. It is hard to really see how they fit in with policy, other than this program costs this or this program costs that. I do not think that is particularly informative. One must always have as the objective of this information that the government has a policy in a certain direction and how this spending is furthering us towards that.

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The other thing I find is a shortfall is that when this outlook comes before us we want to know how we have been doing in the current year. We want to know whether the government was able to fit in with its original plan and where we have gone wrong. It is very difficult to take the budget if it is not in the same format, and even if it is in the same format, it is awkward to take the two documents. I do not know why the initial budget plan is not put there as a column and then the estimate that is available at that particular time put at the side of it, so that is another shortfall.

Even so, the statements that restrict the information to perhaps one year of history, the current year, and then a couple of years of forecast are insufficient for any reasonable assessment of the way government spending is going. Many people, and I agree with this, have suggested a reasonable length of time is 10 years: five back and five forward. We are moving in that direction in some aggregate numbers, but not in sufficient detail. There frequently is not enough history given.

We saw in the Ontario Economic Outlook, which came out in the fall, a very useful appendix with a lot of history. There is no reason why the Ontario Fiscal Outlook should not mirror that and have some appendix tables with some history and the five years forward, because usually the government is doing this exercise anyway. If we are going to be open about it, we should make that available to the public as well. That is what I recommend as a longer period of time.

In addition, when putting out the numbers on their own, there is often a need to have some background information. I have included on page 3 some examples of these kinds of things. In a program with a certain number of clients, such as welfare, it is useful to have the client numbers, the history of the numbers and the expected ones that underlie the estimates that are in the outlook. If there is a new program or or a new initiative, it should be itemized separately.

The one I have mentioned on page 3 of this submission is the pay equity program. There are bits and pieces of

information about this program in the budget and in the fiscal outlook, but it is impossible to tell what they are referring to. There is no adding up of the entire cost of this program: how much of it when it is mentioned in the text relates to the pay equity among civil servants and how much it is when it is paid to help out hospitals and universities etc with their programs. We need a summation of this. Since this is a new program and is not, presumably, mature yet, that needs to be documented somewhere until it does start stabilizing. Otherwise we have no idea what influence this is having on the budgetary projections and the needs for financing.

Another item was the employee wage protection program; there were no numbers attached to that. If new programs are introduced, the expected costs of these programs at the time should be put in and the history of those programs as they develop should be shown. All the ways of putting the transactions in should follow some kind of approved accounting convention.

All the way through this submission I make reference to the Canadian Institute of Chartered Accountants' public sector accounting and auditing committee, because this has been a careful study of the way governments do their accounts and I think that should be a framework for the way the Ontario government puts out its accounts as well. I mention a number of items here I think we should address to make sure that as we change the method of accounting, or from year to year, the user knows the conventions that are used. Otherwise it gets confusing and trends are difficult to develop.

One example is that when a payment is made in advance of the year, such as to municipalities, you need to know if the number includes that in the year it was due or in the year it was paid. It is preferable to have it in the year it is due because unless you do this consistently it becomes difficult to compare one year with another. It is simply a matter of making clear the conventions being used.

Last year there was an innovation introduced that many economists have been advocating for many years; that is, a separation of capital spending from current spending. This is a very useful way of doing it, but I think there are a lot of pitfalls in dealing with this. I would simply say—I do not know because I have not seen any statements about it—was this done in conjunction with the Institute of Chartered Accountants of Ontario? The particular problem I have is treating a transfer as a capital at the level of government where the transfer originates. If it is treated also as the same amount as capital spending by the recipient government, we are going to get into some problems here about the financing and what it means. Again, for this we need to have some clear definitions. This is very important for policy. It is quite appropriate to borrow for capital spending, but you must be sure it is really for capital spending only, not somehow bringing some other things into it.

We have to decide how to treat money that is not the actual investment by that level of government. Also, I think one has to have some idea about government money that goes into bricks and mortar that are not productive. I do not think that simply because it is something that is

hard and that you can see, it should go in as capital spending. It is good that we have this attempt to do it in this way, but I simply say it needs a lot more care and consultation to be guided in the right direction so that policy is helped by this innovation.

Where I find a lot of weakness in the statements available to the public, other than the public accounts, is in statements of assets and liabilities. Here I think a lot more could be done, particularly the evaluation question of when you have financial assets. When it comes to be sold, if it is depreciated markedly, that becomes something unexpected that we have not heard about before. One needs to be able to keep track of this over the years. We need to have some conventions on how to treat the evaluation of assets.

A particularly irksome thing—I am looking at page 4, if you are following along with me—is presentation of revenues, which by and large is dealt with much better than the spending side. Here is a question of trends, directions and things like trying to measure tax burdens. If we are using the personal income tax system to deliver a social program, which is an efficient way of doing it, should the credit that is being delivered on the back of the personal income tax program be treated as a reduction in revenues, or is it really spending? This needs a lot of careful thought. It is my feeling that the property tax credit for seniors is a social payment and therefore should be taken out of the revenue side and added to spending. Those are clear-cut when they are credits.

It becomes more problematic when you deal with non-refundable credits. There is a lot of argument for some of those to also be treated as spending. I recognize there are difficulties here. Where do you draw the line and so on? I think this is something we should continue to examine and not completely shelve as impossible to do. I draw anyone's attention to the fact that other provinces have an appendix in their budgets showing estimates of the value of tax expenditures. The Ontario government has also done that in its fall document in the past. At the very minimum, that is something very useful for an analyst or the public to have.

We come next to what should be included, what is government. Again, there is a lot of debate and disagreement about this. I think one has to recognize that there are a lot of agencies and corporations that are government-owned or government-controlled or are in the end answerable to the government, even if they have a fair amount of autonomy. To be truly open with the public and really let people know what is going on, we need to have some summary reporting of these other agencies. We do not want to start consolidating them all, but some of them do need to be included.

I am particularly concerned that no provincial government in this country puts information about the operations of its Workers' Compensation Board in its budget documents. It is the one operation that is the hardest to get information on, and yet it is financed by a premium that is virtually a tax. The taxation ability of the government has to take that into account because it is a payroll tax. If you ignore the workers' compensation premiums, then you are not really evaluating what you are doing on the tax side as well.

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The Liquor Control Board of Ontario is also completely run by the government. We need not just to have liquor control board profits showing up in the revenue side, but we need to have some idea of the operations of these, maybe to the extent of showing how many people are employed and the salary component, just an abbreviated kind of financial statement. I realize these statements are made public eventually by the agencies themselves, but most people do not get hold of those. I point out that British Columbia has made quite a big effort in this area to include in its public statements accountings of all these various entities.

Accountability is a very important issue and it shows up in many forms. In many cases it refers simply to the fact that if you are going to have a program the public needs to know how you plan to finance it. Initially a responsible government will not introduce a new program without giving a longer-term view of where the money is going to come from to finance this program. On the one side you are going to have this five-year expectation of expenditure growth, particularly if it is a new program, but on the other side what does that mean for the tax source or other charge that is going to be raised to finance this? If we did this most of the time, people would realize more easily that they eventually have to pay for the program, and perhaps they would then, before it is introduced, say, "Maybe we should not introduce this just yet." It would at least give people a more responsible way of analysing government's proposals for new programs.

I have referred to the bottom of page 4. Particularly when there is the introduction of a new tax and there is a statement when it is introduced that this tax is for a particular reason, then government ought to continue to mention that reason the tax is in place. The revenue from the tax should not simply be added to general revenues and disappear into this pit. An example I have drawn is the 1989 environmental initiatives with the tax on new tires, which was supposed to be for recycling, and at the same time the additional charge on liquor, which was also supposed to be for recycling. These amounts are small when seen in perspective of overall revenues, but because they were introduced for such a purpose, it behooves the government to say how they are spent. Otherwise they are going to lose credibility with the public.

Those are the recommendations I have brought forward to show how the public can be brought into a more informed debate, so that if we are going to go to it for more consultation, it will have some idea of what is involved. As far as the consultation process itself is concerned, what I have included here, and I do not intend to go through it, is what goes on in some other parts of the country.

In general, internationally there is a big difference from country to country in how one looks at secrecy. In the United Kingdom, for example, as I am sure you all know, it is paramount; it is just impossible to break that budget secrecy. Australia follows a similar system. In the United States, however, the political system means that it is a very open budget process and that is probably much healthier.

One might argue that it leads to things never getting passed, but perhaps that is a good thing.

In Canada, if you go from the Atlantic to the west, you find it becoming less open, interestingly. The Atlantic has started opening up considerably. I have given a brief description of recent developments in New Brunswick and Nova Scotia which I think are quite interesting.

Of the other provinces, Alberta in particular has a very closed process, receiving submissions by groups, which is common across the country, but not discussing them: they simply receive them. However, they are beginning to feel a bit uncomfortable with this process, and in response to a lot of upset seniors they are now actually consulting with seniors' groups. I do not know whether that is a reflection of the age makeup of Alberta, but perhaps that will be extended to other groups in the population later.

Quebec's is also a fairly closed system, really just receiving groups and discussing it with them. There is no solicitation of submissions or any effort to put forward budget outlooks or statements of any kind.

Having looked at what is going on in the rest of the country, and with the backdrop of constitutional discussions and, it appears, the rise in popularity of the town hall type of meeting, I suggest that Ontario examine that format for this province, to see if there is some reasonable amount of popular consultation that could take place in the small group type of situation.

That is my presentation.

Mr Phillips: I really appreciate your thoughtful comments on the process. I tend to very much agree that we need a consistent approach to laying out the numbers. Maybe it is just what any political party would do, but I think the government is traumatized by its deficit number and will do everything it can to report a different deficit. Maybe that is just human nature, but I do not like the way the capital account was set up and reported. I agree with the establishment of the capital account, but it is, from my perspective, not an accurate way of setting it out.

I think you will see the government continuing to do things. Whether it be, as you point out, giving tax breaks instead of direct spending—I think the worker ownership plan is a different way of expenditures, but a way that takes it off expenditures and puts it on loss of revenue. I think we see Ontario Hydro picking up programs the government previously would have done. I think you will see WCB picking up some things that may have previously been handled through government expenditures. I think you will see the training thing—it is about \$2 billion worth of expenditures—move into an independent body, government spending decline and it will raise its own money, through some form of payroll tax or something like that. I think you will see the use of pension funds for what previously may have been handled by organizations like the Ontario Development Corp.

The reason I raise all this with you is that I think yours is one organization that watches this stuff a little. I am just alerting you to what I think may very well happen, as you have already alerted us. Is your organization, or is there some organization, attempting to recommend to governments a standard way of reporting that is consistent across

jurisdictions and over time, so that governments—I think this government is no different from other governments—find what really irritates the public and then try to find a way to get rid of it? What is really irritating the public right now are the consistent, huge deficits. If they want to get re-elected, they find a way to reduce it in real and artificial terms. Is your group or are other groups trying to find a way to standardize the accounting system?

Ms Ip: I personally have already published in this area, and presumably all the provincial governments, and anybody else, have access to what has been said. We are only an institute. We cannot do anything other than make recommendations whenever there are opportunities to say this. This is an area that has come up constantly, and everything we write about in fiscal policy brings up the issue of accountability, transparency, having standard systems.

We have recently been involved with the constitutional conference. As I mentioned, that came up there. It is something that will continue to go on. I think, however, that you have to hand it over to the accounting organizations to work with governments, because we are not accountants. All we can do is state the principles that should be behind it. It is there, the studies have all been done during the 1980s and I think one has to keep on reminding everybody that those studies are there. You have an Auditor General who comments on the way you do your work. I have noticed in the long years I have been watching government accounts that in general there has been an improvement, an effort to unravel things and to put gross ahead of net. It is slow but we are not slipping backwards, so I guess that is a plus. I would simply say that it is just something one has to keep at and that we intend to keep on working at it.

1540

Mrs Y. O'Neill: I am glad you highlighted the tax expenditure line. I think that is very important. We have had some representations, and I guess I can indicate that the truckers were asking us to consider very directly, as did the chamber of commerce from northwestern Ontario that I met with this morning, that we should be looking at a more direct relationship, a bridging relationship, between moneys that are collected, for instance from the fuel tax and the gas tax, and placing those on the infrastructure of the highways. We have had this debate regarding such things as the tire tax before.

Have you any thoughts on that kind of philosophy? We do get requests, I think particularly from the users and from the major municipalities. I do not think any government in Ontario has had a really strong, direct relationship between those, particularly in the gas tax and infrastructure component of the budget. Would you say a little bit about that?

Ms Ip: Yes. On page 4, I referred to that under "Accountability." Transportation is linked with gasoline and diesel taxation. I think in general the whole issue of accountability brings up the idea of user charges in general. Everybody would like to have user charges, but public services cannot readily be linked with user charges. It is just impossible. But there are areas where one can do this.

Some provinces have tried, for example, to take the sales tax and label it as a health tax. I do not know whether that is a particularly useful way of doing it. I do not think people remember that every time they buy something they are paying towards their health program, and they do not show a health account in the budgets, where the health spending is set against the tax.

It also raises a question. If it should happen that the sales tax is very large, would you automatically spend it all on health just because it is a revenue? It is not a simple issue, but there are some taxes that lend themselves very well and you pick on the one that does.

A fuel tax is a very useful tax to apply to infrastructure. In fact, it is my feeling that the federal government should get out of those taxes and leave them to the provinces, since the provinces have to fund that type of spending. But that is for another publication which will be coming out in about a month.

On the health side also you can argue, as I have mentioned here, that tobacco taxes are frequently increased with a preamble by the Treasurer or the Minister of Finance that we all know how tobacco harms people's health and therefore they are raising the tax. What happens to the tax? Is it a matching with programs against lung cancer or something else? Does this go on?

There is a loss of credibility when you make those kinds of statements, but there is no effort to show people how they are linked. I think it would be useful. One could take liquor taxes and tobacco taxes and have a health account. I think one should experiment with which revenues can be logically linked with some spending, but one cannot push it to absurd limits. It is just impossible.

I think it is more important, as I mentioned earlier, that a program is shown to be able to be financed at the time it is introduced, that it is clearly stated that in order to bring in this program, which is projected to grow by this amount over the next 10 years, it is going to be financed by an increase in the personal income tax, by an increase in the sales tax or whatever it is and that people understand that this is where it is going. If they then object to that, they can say so. The problem is simply introducing a program and later on a tax is increased, so there is no link made because for that program it was left too late.

Mr Carr: I think one of the big problems we have is that governments at all levels have always had a tough time planning. We seem to be making cuts in an ad hoc manner because we reach a crisis situation. I think you have given us some ideas on how to do that with the process. I think changing the process will help. I was thinking of post-budget. I appreciate the pre-budget and I want to talk about that in a minute.

In post-budget there are some items, particularly tax items, where you might not want to let people know you get input. If, for example, you are going to raise the gasoline taxes, there would be a mad rush the day before or a week before, if people found out, to get gasoline and hoard it or whatever. There needs to be some secrecy. What happens is that after a budget there is a time frame before legislation comes in that actually enacts that particular tax, even really up to that day. How do you see that being handled?

Is there a process that once the budget is down that is it, it cannot be done? Or, for example, if something like the gasoline tax comes in where the auto workers and the auto industry are opposed to it, there is some time frame to change it and say: "Wait a minute. We don't think it was good." How would you see the post-budget period being opened up a little bit? Do you have any thoughts in that area?

Ms Ip: You mentioned the gasoline tax. I will try to use an example. I do not see any problems with people rushing out and filling up their gas tanks as much as they can. What are they going to do, put extra tanks in their backyards? There is a limit to how much you can take advantage of that piece of information. I think the secrecy idea is when you have one favoured group that is going to benefit from it. If the whole province can get its gasoline and take advantage of it, more power to it. I do not see that the secrecy is very important in those issues. Far better to have had the discussion in the pre-budget process as to the options of raising extra revenues, such as: "We could raise the gasoline tax by this amount. It would yield X dollars. On the other hand, we could do it on taxes, we could do it on liquor. How do people feel about that? Let's get the input." There is no secrecy problem then since they are just discussing what the options are.

Usually there is not a problem in having it effective from the night of the budget, even if the legislation comes in later. I have never heard of that being a problem. But if it is, I would simply say that the government would have to take that into account in its revenue estimates. We had a gasoline tax announced for January 1, 1992, did we not? That was not done right away. I suppose everybody rushed out on New Year's Eve and filled up their tanks; I do not know. I do not think these are important issues.

The federal government made this point in its statement about this: You could afford to be much more open than you are, and there are few occasions when it is quite clear that by announcing it in advance a few people—it is getting less; those opportunities are smaller and smaller because we have fewer and fewer tax shelters. It was those sorts of things that helped people benefit. An example at the federal level which would also affect the provincial government is the capital gains tax, because some people could benefit from that. The biggest problem is not the secrecy of that. I just raise this as a particular issue. The biggest problem there is that the people who have used it would have had a windfall gain and the people who were not able to use it are the losers. That has nothing to do with secrecy.

Mr Carr: There are retroactive provisions used all the time anyway.

Ms Ip: Yes. There is a kind of a commitment. I think it is important that you make commitments to people and perhaps phase things out. That is an argument not only for not having secrecy but also for having a long lead time before you make a change to give enough people a chance to make use of it. I think one has to use a bit of judgement here as to the secrecy. I do not see it as a major problem.

Mr Carr: I was interested in your comments about adding—I agree with Gerry that this government is trying to get away from doing that. You hear the Premier, even when he was away, talking about capital projects as if somehow that is a little bit different. If people knew of the unfunded liability of the WCB and Hydro situations, they would be really shocked, if you add those numbers, and the average public does not.

On that public consultation process, I like the idea because I saw that happen with, for example, the redirection. They had an open meeting, nobody talked and they just took input from that. The big problem is what happens afterwards when people get let down when they do not hear what has happened. Could you explain how that has worked in Nova Scotia? Do the people feel better about the process? I know the politicians do because they can justify anything. You get 100 people coming in and they will pick the one who agreed with them and say, "There you go; that's why we justified it." How do the people in some of these jurisdictions feel? Do the grass roots feel better about the process?

Ms Ip: You have to recognize that in Nova Scotia it is very new. It started last year in a very broad context with everybody coming in and going up to mikes. It is only this year that they experimented with the workshop thing, which is the constitutional model. So it remains to be seen. They moved on to that I think because the other one was so popular and they found they wanted to have more consensus-building rather than having a free-for-all. We are sort of moving through a kind of process here. It appears to have been working very well.

They tell me what it amounts to is that it is an opportunity. They have said about 75% is giving information to those people—it is an educational opportunity—and 25% is receiving ideas. The people are told that this is to weigh different things. I think that if it is handled properly, what you say is: "We're the government. We have to decide this in the end, but we want to hear particular constraints and difficulties."

Drawing on the experience of the Halifax constitutional conference, in the workshops I was in I noticed that the enthusiasm of ordinary Canadians, in having their input, was in principles. They would say things like: "If Quebec is different, we should try to accommodate it in some way. We don't really think you need to call this thing asymmetry. We aren't really sure what it's going to involve. You have to decide that. We aren't the ones who do that, but we want you as our representatives to go out there and work this problem out within this framework."

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When you consult people and give them respect for their opinions, I think you will find that they are not going to start pouting and saying, "My particular thing was not"—people understand that. It is the fact that they are not being asked, are not being told. They feel the wool is being pulled over their eyes. That causes alienation and the loss of credibility. I think we have to give the general public credit for understanding the constraints that governments are under.

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Budget process

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Première intersession, 35^e législature

Journal des débats (Hansard)

Le jeudi 13 février 1992

Comité permanent des finances et des affaires économiques

Procédé pour déterminer le budget



Chair: Ron Hansen
Clerk: Todd Decker

Président : Ron Hansen
Greffier : Todd Decker

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LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday 13 February 1992

The committee met at 1009 in room 230.

BUDGET PROCESS

CANADIAN TAX FOUNDATION

The Chair: We will resume our meetings on the budget-making process, consultations and secrecy for the standing committee on finance and economic affairs. We will start off with a gentleman from the Canadian Tax Foundation. For the purposes of Hansard, would you mind identifying yourself, sir, and we have approximately one hour.

Mr Sherbaniuk: My name is Douglas Sherbaniuk and my position is that of director of the Canadian Tax Foundation. The foundation is a non-political, non-partisan, disinterested organization whose role is to keep the Canadian tax system under review, which we do through the commissioning of research projects, the organization of conferences literally from coast to coast and an extensive publications program that involves a bimonthly tax journal as well as conference reports, monographs and finance handbooks on revenues and expenditures for all three levels of government. Shall I proceed?

The Chair: Yes. I forgot to welcome you here this morning. I welcomed you earlier, but I would like to welcome you here also. You said to me earlier in a conversation that you did have a large, intensive brief I believe the research clerk has here. All of that will be gone through by the research clerk and will be put into the report. I think there were four areas you wanted to address to bring the members up to speed on them. Perhaps you would not mind going through those items and we will have the question period after.

Mr Sherbaniuk: At the outset let me reciprocate your welcome. I am very pleased to be here to address this committee on a subject that has been of continuing concern to the Canadian Tax Foundation over a period of about 15 years.

Let me refer to the published material to which you adverted in your initial remarks. Copies of those materials were provided to Mr Decker about two weeks ago. Copies doubtless can be made available to members of the committee to peruse at their convenience.

The first of the items we submitted was an article entitled "Budget Secrecy," which I wrote and which was published in the Canadian Tax Journal in 1976. The purpose of the article was to examine the significance of the convention of budget secrecy, which Canadian legislatures inherited from British parliamentary practice. At least at the time there was very little published material about the origins of the doctrine of budget secrecy, how it had evolved over the years and precisely how it applied in varying circumstances. We were able to extract from British documents

two instances where budget secrecy led to the resignation in one case of a member of the British cabinet and on another occasion of the Chancellor of the Exchequer on what seemed to be relatively minor infractions of this so-called convention of budget secrecy.

In his budget speech of 1976—this will lead us to the second document, copies of which I have provided to you—the Honourable Donald Macdonald devoted one page to expressing his dissatisfaction with the procedures that were pursued in preparing tax changes, and second, he was dissatisfied with the way those tax changes were dealt with by Parliament after they had been announced in a budget.

At the request of the Department of Finance, the Canadian Tax Foundation struck a committee to examine the tax legislative process. The committee met for almost a year and submitted its report in 1977, after Mr Macdonald had left office and had been replaced by the Honorable Jean Chrétien. The report did not evoke many changes in the federal tax legislative process, but that report, published in the Canadian Tax Journal in 1977, remains one of the most comprehensive reviews of the shortcomings of the then federal budgetary process.

Third, in 1982, after the much-maligned MacEachen budget of November 1981, the Department of Finance asked the Canadian Tax Foundation if we would prepare quickly a report on how the tax legislative process could be improved. A report was prepared in a month, and many of the recommendations in that report were adopted in a green paper issued by the Department of Finance under the name of the Honourable Allan MacEachen. In that green paper, as I say issued in April 1982, the framework for opening up the budget process, for constraining the importance of so-called budget secrecy, was all found in that green paper, which became, as I say, the framework for the current method for dealing with tax changes on the federal scene.

The next major event was a discussion paper that was tabled in May 1985 with the first budget of the Honourable Michael Wilson. That discussion paper noted a number of deficiencies in the federal tax legislative process and suggested a number of ways of remedying those deficiencies. The Canadian Tax Foundation struck another committee to review the discussion paper and prepare a report, which was published in the Canadian Tax Journal in 1985 and examines in some detail Mr Wilson's proposals in general and in particular the suggestion that there should be adopted a so-called provisional collection of taxes act, patterned on a similar statute that had been in force in the United Kingdom since about 1915.

That is the listing of the four documents, copies of which were provided to Mr Decker, the article on budget secrecy, the report prepared in 1977 and published in the

Canadian Tax Journal, a report responding to the MacEachen budget difficulties in 1982 and a further committee report in 1985 responding to the proposals by the Honourable Michael Wilson.

There have been numerous changes in the tax legislative process at the federal level, and by reason of the green paper published in April 1982, the process is a far more open one. In particular, dealing first with the pre-budget period as distinguished from the time when a budget announces tax changes and they wend their way through the legislative mill, in the pre-budget period, whereas the prior practice had entailed the preparation of tax changes behind green-beige doors on Parliament Hill by a small group of officials, the practice now, since 1982, entails consultation on a fairly broad basis by Department of Finance officials.

In the case of major proposed tax changes, the practice now is, and certainly should continue to be, the issuance of a discussion paper, which may have different coloured covers depending on the significance of the proposals and the Department of Finance's seriousness about adopting them. A green paper, as you know, is simply a set of proposals published for debate with no necessary commitment by the government to adopt those proposals. A white paper, on the other hand, indicates some degree of commitment to the proposal discussed in the white paper. A brown paper, which is used relatively infrequently, really is nothing more than a report on some issue of public concern in the realm of fiscal policy.

As far as representation from the public is concerned, the problem was discerned to be the lack of opportunity of members of the public—widely conceived, the man or woman in the street—industry groups, members of Parliament, the provinces; none had the opportunity to be heard before the tax proposals were formulated and introduced as a fait accompli in a budget. The practice now at the federal level, and I believe increasingly at the provincial level, is to seek public consultation on tax changes through various ways.

For one thing, the department can invite persons who have an interest in the proposed tax to be heard. I will call this the private consultation. Industry groups may be invited to prepare a submission, even to contact finance officials and discuss the proposals. It is important that this be done in order that the ramifications of a proposal can better be appreciated by officials before these changes are introduced as a formal budget measure. It is beyond the wit, I think, of any group of bureaucrats, however skilled and experienced, to understand all the ramifications in an environment and with an economy as complex as that of Canada or Ontario. The ramifications of a proposed change are important to understand before the change is introduced.

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Second, the design of the tax measures are almost bound to be better with the input of informed persons, usually tax professionals. There are many instances that could be cited where a measure had been introduced and adopted only later to be found to be unworkable. It then involves changes in those measures to make the provision administratively workable and possible for compliance by

members of the public. Understanding ramifications of a change is important and understanding how best to design a tax measure so it works is likewise important.

Third, by extensive consultation there is a much better chance that the public, even though they may not like the tax measure, will be more prepared to accept it if they have had an opportunity to have some input into the formulation of those measures.

For all of those reasons, consultation on as wide a level as possible is to be applauded.

Consultation by invitation: Private discussions are certainly in order. The Department of Finance—I believe it is increasing the practice in Ontario—engages private consultants, that is, experts in a particular field. They may be from chartered accounting firms or law firms, they may be seconded in some cases to the Department of Finance for a period of a year, 18 months or two years to work on a particular project so that the ultimate product will be as satisfactory as possible. A case in point is the review of the interest deductibility rules the Department of Finance has been wrestling with since the Supreme Court of Canada decision in 1987, the Bronfman trust case; they had two experienced lawyers from the private sector for a period of 18 months or two years serving with the department to give the department the benefit of their expertise from the private sector and their expertise in doing financings. Hiring or engaging private consultants is certainly one way for consultation to achieve desirable results.

Another possibility—these suggestions, I might add, are to be found in one or another of these documents to which I made reference at the beginning of my remarks—is for the organization of an ad hoc committee whose members would be specialists in a particular area. For example, to take one illustration, if changes were to be made to the treatment of financial institutions, possibly life insurance companies or trust companies, brokerage firms or the petroleum industry, it would be helpful to have a committee of specialists not necessarily from the industries, although representatives from the industries might well be in order, but from accounting firms or law firms that have clients in the fields who are familiar with the rules, and maybe even members from the staff of the Department of Finance. Such a specialist group would be much better equipped than the man in the street or the woman in the street to give sound advice on that particular targeted area for review.

Neither of these suggestions, that is, hiring consultants from the private sector or striking an ad hoc committee on a particular narrow area where specialized knowledge is required, will suffice as far as permitting the man or the woman in the street to be heard. May I add one other possible type of committee that is referred to in one of these documents, that is, a standing committee or a permanent committee of tax advisers. The model might be the advisory committee that has been struck to provide advice to the Deputy Minister of National Revenue. The committee meets at the call of the chair and issues that confront the Department of National Revenue are put on the agenda which is prepared by the deputy minister. The members of

the committee then provide their views to the deputy on these various issues.

There seems to be no reason why a comparable committee could not be struck at the provincial level to advise the Treasurer on issues he may have in mind, not necessarily for consideration at an early date but perhaps over a period of months or into another session. That would be as distinguished from the ad hoc committee struck for one purpose to deal with one issue and then disbanded. This other committee would be a standing committee to which the Treasurer or Deputy Treasurer could refer matters for input from outside government.

What about the man or woman in the street? They may have to be encouraged to come forward to present their views. They may be diffident about taking what may appear to them to be quite a major step in appearing before a committee such as this one to make their views known. Certainly one way for the public to be informed of what the Treasurer may have in mind, either for immediate consideration or for consideration at a later date, is a consultative document. It could take the form of one of these coloured papers I referred to earlier or it could be simply a press release of three or four pages if it is a narrow issue. In that way the bedrock rationale for budget secrecy I think is averted. The only rationale, or certainly the only significant rationale, for budget secrecy has to do with the opportunity for private gain from prior knowledge.

Apart from that consideration, this tradition of budget secrecy has taken on a significance that far exceeds the role it ought to play in any parliamentary democracy. We are all familiar with the events within the last decade or so, really trivial events that led to the call for the resignation of a Minister of Finance or a Treasurer. We all recall the event of the picking over of the garbage behind the printing house that was preparing the Treasurer's provincial budget back in the mid-1980s in Toronto. The hue and cry came up from the opposition that the minister should resign because a few pages were found in the trash.

You may also recall the episode involving the Honourable Marc Lalonde when a cameraman with a zoom lens was able to take a photograph of one page of the budget as he leafed through it. Again the call came up that he should resign, although there was nothing on that page that could possibly have been exploited for private gain. It is a knee-jerk type of reaction founded on this so-called invention of budget secrecy whose magnitude far exceeds the significance it ought to have.

One cannot argue, however, with the need for secrecy if prior knowledge of what is in the budget is likely to lead to private gain. A consultative document dissipates private knowledge of what may be on the Treasurer's agenda for some time in the future. If everyone knows, there is no opportunity for private knowledge to generate private gain. Hence the use of these consultative documents, as frequently as possible, as early as possible in advance of serious consideration of an issue, will provide the man or woman in the street with information that enables him or her to consider the measures and, if sufficiently interested, to have an opportunity to write a letter, submit a brief or, if invited to

appear before this committee, to do so. That is one way for the ordinary citizen to be heard.

The other way is to have a parliamentary or legislative committee—it may be this one, it may be a subcommittee of this committee—whose role will be to address tax and fiscal issues. Since the 1982 green paper from the Department of Finance, as you know, the House of Commons standing committee on finance now holds public hearings. It invites briefs and it invites the members of the public, industry groups, the man or woman in the street to come and be heard. I am not aware of whether this committee holds public hearings so as to permit those who are sufficiently interested in an issue to present a brief to you and come and be heard or be invited to appear. I would be interested to know what the answer to that question is.

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The Chair: Yes, we do.

Mr Sherbaniuk: They do?

The Chair: That is correct.

Mr Sherbaniuk: As a matter of course, are consultative documents in the realm of financial affairs referred to this committee automatically for consideration? Would proposed tax changes be automatically referred to the committee for consideration?

The Chair: Yes, they would be.

Mr Sherbaniuk: There is another means then by which the ordinary citizen has an opportunity to be heard. That is really all I have to say about the pre-budget consultation process. There are opportunities to sum up by which the treasury can invoke a range of outside assistance. By outside I mean outside the department of the treasury or outside government: from private consultants; from ad hoc committees; as far as the man or woman in the street is concerned, through the widespread use of consultative documents, and by having a legislative committee that will hear representations from the public.

Turning to the post-budget period, on the notice of ways and means motion or draft legislation or whatever form the tax changes may take, consultation again is very much to be desired. There has been literally a sea change in the decade of the 1980s in the way some legislatures in Canada, certainly the federal government, deal with the post-budget period. As you are aware, the budget addresses the major tax changes. The technical details often are contained only in supplementary accompanying documents.

The tax changes are referred, in the case of the federal government, to the House of Commons standing committee on finance which reviews either the notice of ways and means motion, which often takes the form of draft legislation or, if Parliament is not sitting, the tax changes may be issued simply as a press release. But they are structured in the form of legislative provisions. It was, through most of the 1980s, the so-called Blenkarn commission. Initially I think the members of that committee were tyros, initiates and novices in the realm of tax change and public finance. But one budget after another referred to this committee soon educated them in some of the ramifications of tax change. That is an essential element of having an effective standing committee to deal with tax matters.

It is as complicated a subject as is to be found in the statutes, federal or provincial, in this country; that is the tax laws. It is expecting rather much I think for an elected official appointed to the committee to be able to deal certainly initially with some of the technical details of those tax measures. One can take a leaf from the experience of United States committees, the Senate finance committee or the Rostenkowski committee in the House of Representatives, where the chairman certainly and members of the committee frequently serve for a period of many years. That experience should be emulated in this country, federally and provincially.

Draft legislation is frequently circulated through the summer months to enable the professions to study the technical details of the measures. They were invited to send briefs and submissions identifying the warts and car-buncles in the legislation so that it could be repaired before that draft legislation receives formal parliamentary attention. It is undoubtedly true that the quality of the legislation is enhanced by reason of this opportunity that is permitted the private sector, whether it is industry, charitable groups, if that happens to be an area that is affected, the professions, to make their representations so the finance officials can repair the bill before it proceeds to formal reading in the House.

I should add, when we are dealing with this post-budgetary period, that an enormous advance in the tax legislative process was the adoption by the Department of Finance of preparing explanatory notes with the draft legislation when it was made public. Indeed, in retrospect it is difficult to understand how the public in general and the professions in particular could have coped with the avalanche of tax changes that had been issued at the federal level through the decade of the 1980s. It is not an exception to have 100, 200 and 300 pages of tax changes issued each year. Without the explanatory notes which are keyed to each section of the tax changes, it is hard to appreciate how the professions could have coped with that mass of material.

I note that Ontario tax legislation likewise has at the beginning of the legislative provisions a summary of notes that is keyed to the sections. These are fairly brief, two and three lines, not full explanations as one finds in the federal bills, but certainly a good start for helping the public to understand what the technical changes in the legislation are intended to do.

If one were to examine some of the deficiencies in the tax legislative process today after all the changes we saw adopted in the 1980s, and they are myriad, I think one could note that the significance of budget secrecy is certainly much reduced from what it was before 1982. The kinds of consultations that take place now at the federal level and I believe at the provincial level are far greater than could have been tolerated prior to that watershed decision on the part of the Department of Finance and the green paper to open up the process.

There is one festering sore that remains both federally and provincially. It appears in representations to both levels of government and it has to do with the, in the view of many, unwarranted length of time that elapses before the

announcement of a tax change, either in general form in a budget or in a draft notice of ways and means motion in a technical way, and the final passage of that change, federally or provincially, with royal assent forthcoming. In the case of the 1991 Ontario budget, tax changes were announced in April 1991 and those changes were not adopted until just before Christmas 1991. That is actually not bad when one looks at the record federally and provincially in previous years. Is eight months warranted to pass a relatively small packet of tax changes?

Mr Phillips: There are some that still have not been passed.

Mr Sherbaniuk: Still have not been passed?

Mr Phillips: Yes. The gas bills.

Mr Sherbaniuk: The significance of course is that commerce is often impeded, deals are not done, transactions are not consummated because frequently the significance of a tax change will make or break the deal. While these tax changes are outstanding, the parties to a contemplated transaction cannot be sure whether the change as announced will in fact be adopted, or whether some revised version will be introduced and adopted, or whether it will be abandoned completely. Because of the significance of the tax impact on the transaction, deals frequently are put on hold.

Eight months, as I say, for these changes seemed an unwarranted length of time for legislative consideration. There are instances at the federal level where the changes have taken well over a year to be adopted. If one is to gauge the seriousness of that delay by the representations that are made certainly at the federal level—I am not privy to what representations you have heard at the provincial level—it is a cause of great concern on the part of the private sector.

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The suggestion was made in the last report of the tax foundation's committee, the one that reported in 1985, that every effort should be made to introduce the technical legislation incorporating the budget announcements either at the time the budget is delivered or within a very short time thereafter, and that there should be every effort made to deal with that legislation expeditiously rather than leaving it over a period of several months or a year or more. Mr Wilson, in his discussion paper, was acutely aware of the deleterious effect those changes have on commerce. In his discussion paper of 1985, he proposed that there should be adopted in this country, at the federal level, a so-called provisional collection of taxes, which in effect would provide for a guillotine to be applied to the legislation introduced in a budget if it was not passed within a stipulated period. That is the rule in the United Kingdom and has been since about 1915. For whatever reason, the federal government chose not to proceed with the provisional collection of taxes act, and that deficiency that has long attended federal budget tax changes persists.

I have one final point to make on the concept of budget secrecy. I refer to that because in Mr Decker's letter that seemed to be the jugular this committee was going for at the request of the Treasurer. The Economist, the weekly

news magazine from the United Kingdom, in the issue of June 28, 1982, dealt in a page with what they called the big myths of the budget secret. Many of the comments I have made to you today are adverted to in very summary form on this one page, but there is one paragraph in particular that I would bring to your attention.

One of the concerns that had been raised in the United Kingdom about abandoning the tradition of budget secrecy was that members of the public, if they were aware that the tax on alcohol or tobacco were to be increased, would immediately run out to the nearest store and stock up their larder with tobacco and their wine cellar with booze. That, to my mind, would have fallen under the rubric of private gain by advance knowledge. I put to you, for what it is worth, the views of the editors of the *Economist* who exploded this idea as having not very much merit.

I am aware of no empirical information in this country as to what the reaction of members of the public is when they expect a tax change affecting liquor or tobacco, whether they do run out and stock up large quantities or whether that is a highly inflated explanation of what in fact happens.

Let me read the words of the *Economist*:

"The second argument for secrecy is that if the public is told in advance that, for instance, alcohol taxes might be raised, they may try to beat the budget by stashing bottles away under the stairs. But people already build some pre-budget stocks because they expect indirect taxes to be adjusted annually, even if only to make up for inflation. The drink and tobacco lobbies all agree that publishing forecasts would make little difference to their business. Britain is the only country in Europe to make its indirect tax changes effective immediately they are proposed, and experience elsewhere suggests that this is not a major problem."

So even in cases where there may be a change in the tax Ontario were to levy on these commodities, it may not be a sin as far as budget secrecy is concerned to even make that kind of knowledge available.

The last point I make is connected with the length of delay in the passage of tax changes. The effective date of a tax measure varies as you read a tax bill. Very frequently the effective date is the date of the budget or the date of the announcement. Without getting into all the details of what is a complex issue, as described in that green paper of Mr MacEachen, serious consideration should be given to making tax changes generally effective as of the date of royal assent rather than making them retrospective in effect of a year or two before royal assent has been given. It is a complex issue, and I think it is beyond the scope of what I want to say today, but if the committee is going to address both the pre-budget period and the post-budget treatment of tax changes, I would respectfully request that the issue be addressed.

That concludes any prepared remarks I wish to make to the committee. I would be pleased to entertain any questions you may have.

The Chair: Sir, this is the first time you have been before the provincial government briefing us. Would you mind maybe for a minute or so just a little bit of background? Not that we doubt your credibility, but maybe

some of the newer members here would like to hear your background in this particular area. We know your foundation, and if you could just do it in a minute—

Mr Sherbaniuk: You mean my own CV?

The Chair: Yes.

Mr Sherbaniuk: I am a graduate of the University of Alberta in honours modern languages in 1950, received a law degree from the University of Alberta in 1953, was admitted to the Alberta bar in 1954, did a year of post-graduate work at the University of Toronto in 1954 or 1955, joined the faculty of law at the University of Alberta in 1955, where I taught until 1960, when I went to Columbia University to earn a master of law degree, focusing particularly on the field of taxation. I resumed teaching in Alberta in 1961.

In May 1963, I joined the research staff of the Royal Commission on Taxation, the so-called Carter commission, became a member of the senior staff and was affiliated with the Carter commission until the release of the report in February 1967. I taught at Alberta until 1965, at which time the dean of the faculty of law at the University of Toronto invited me to join the faculty. I have been a professor of law at the U of T since 1965 and am still so today.

In 1967 I was appointed the director of the Canadian Tax Foundation and serve in that capacity still. I have served on a number of committees and commissions over the years, several Ontario committees and commissions, some involving the overhaul of your corporation laws in 1967 and a number of federal task forces. I have written and published fairly widely in the tax field. I am a member of the Canadian Institute of Chartered Accountants tax courses committee and a member of the Canadian Bar Association and CICA joint taxation committee that prepares briefs for the Minister of Finance and the Minister of National Revenue annually. I think that about covers it.

The Chair: It is quite a record there. We are going to go to Mr Kwinter to start off.

1050

Mr Kwinter: Mr Sherbaniuk, I would like to get your reaction. I was very interested in what you had to say about the whole issue of budget secrecy and pre-budget consultation. We have had for a number of years a pre-budget consultation where people come in. They are either invited or they ask to appear before us. They usually come with their particular interests at heart, and they give a pitch as to why they should be given some kind of consideration in the budget.

I think that leads to a lot of frustration. For example, yesterday we had the Ontario Trucking Association. They come every year saying that the tax on diesel fuel should be reduced. Invariably the budget comes out and the tax goes up, so not only have they not had their request honoured, they have been given an additional burden. It seems to lead to the feeling that this is an absurd kind of situation. "Why do we bother? We go there, we tell them what we want. Nobody listens, and not only do they not listen but they then go out and add a tax to even compound our problem."

Because the budget is a political document, it would seem to me—this is what I want to get your reaction to—that if you really are going to have consultation on the budget and if you can do away with this budget secrecy, the initiative for the consultation should come from the Ministry of Treasury and Economics. They should lay out some of the areas that they are looking at to increase revenues or to reduce taxes and then call people in to discuss that with them to give them input as to whether they feel this is a good move or a bad move. Then, at least, you are dealing with something that has some semblance of reality as to what is going to happen. When you spend your time listening to people come in and they just initiate this on their own, most of it is irrelevant because it has nothing to do with what the Treasurer is going to do anyway. They are just coming and espousing their particular point of view. Do you have any reaction to that?

Mr Sherbaniuk: Yes. The assumption I was making throughout my remarks was that the treasury was in control of the budget, that it laid out the framework of what was of interest to the Treasurer in preparing his forthcoming budget, and that his consultations, whether they were done in a private way, that is, by talking to an interest group or to professionals who were knowledgeable about a particular issue, had to do with what was ultimately to appear in or might appear in the budget, not a scattergun discussion of everything in the realm of public finance.

When an ad hoc committee was appointed, it was because there was a particular industry or a particular issue. "Should we have a wealth tax?" might be suggested to a special committee, and that is because the Treasurer holds the reins and has the agenda for what he considers appropriate for that year's budget.

Similarly, it was my understanding that this committee would have referred to it items that were under consideration for possible adoption in the 1992 budget; that you would have referred to you the draft legislation for this year; that this was not just a sounding board for anybody who wished to talk about any aspect of the tax or expenditure system. I quite agree that may very well be a waste of your time. If it is not on the Treasurer's agenda for consideration for the immediate future, it seems to me that is not an appropriate role for this committee to play, to hear simply anyone from the street who has a complaint about the tax system.

Mr Carr: I have numerous questions. I enjoyed it very much, but as usual, I have to scale it back to whatever—how much time do I have?

The Chair: We have about five minutes. One thing I want to note: The material that has been handed in is quite intensive, and I think you have to sit down for a few hours, but a lot of the information is in there.

Mr Carr: I want to go off on another topic along the same lines, something you did not touch on too much, and that is the Fair Tax Commission. In that regard, what the government has done has been very good. They are outlining very specifically. They have taken certain areas. They have, so-called, both sides of it, corporations. What has come out of it now, as I understand, is a lot of dissension

about what needs to be done, and then presumably they will report to the Treasurer, who will then incorporate that into the budget. A very good process, I think, although a lot of people say that, with the date, it is nothing but a pre-election gimmick. I guess that will remain to be seen.

What is your feeling with regard to the process of the Fair Tax Commission? I even shudder to use the name Fair Tax Commission, because it may not result in that. How would you like to see that work, and specifically, what role could this committee play in that function? For example, last Tuesday night I went to a group, the Taxpayers Coalition, that wants to be involved in it and does not know how, and we are trying to get it involved. How do you see that working so that we can broaden this whole discussion of taxes in the various areas that they are looking at?

Mr Sherbaniuk: It is probably premature to pass any judgement on how the Fair Tax Commission procedure or process is going to work. I think it is certainly novel in the experience of this country to have a commission appointed, as the Fair Tax Commission has been, and then have, at the same time, working groups addressing a number of issues, and then have a number of consultants appointed to prepare studies and then, as I understand it, to have so-called town hall meetings. I am not sure whether those have actually come off or whether they are still at the incipient stage or are being planned. There will be a very interesting paper, I am sure, prepared after this is all over to see how this unique approach to a major review of a province's tax system actually works out.

I think many were surprised when they heard that there was a Fair Tax Commission that would report in three years, after the extensive review had been completed and, at the same time, that there would be working groups making reports to the Treasurer for possible adoption in budgets during that three-year period. What comes to mind is the problem that he would face if the Fair Tax Commission said, "We disagree with such and such a measure," only to find that it was adopted somewhere during the three years.

Also, I think there was certainly surprise at the size of the working committees. I am not sure there is a finite number for efficiency and effectiveness, but in counting the names of some of the committee lists, it seems to me that we were exceeding 20 or 25. I have not been present at any of the committee deliberations so I really cannot speak as to how those committees function, but there seems to be an impossibility for each member of that committee to have very many minutes on the agenda of a meeting to be heard without the process running on indefinitely.

I believe the first report of the working group is imminent, the one on the corporate minimum tax. I understand it is in the very final stages and may be tabled towards the end of this month. One does hear, because there are such different polar views on some of these issues, that consensus of such a group may be difficult to arrive at, and accordingly, I am not sure whether there will be dissenting views or whether it will be a very bland report, or just what the result will be.

Certainly from my point of view, it is premature for me to pass any kind of judgement on how effective this very

unique process is going to be. I can speak of the process that was followed by the Carter commission, with which I was intimately acquainted. It worked extremely well. The interplay between the commissioners and the research staff, the studies that were done and how they were dealt with, the preparation of the report, I think was probably a model for the period 1967 and following. It may be that the Fair Tax Commission will set a new model. Again, I cannot really speak to that.

Mr Carr: Just on that point, I think it is right to regard—time up?

The Chair: I have to say that if we give each one five minutes, and then there will be 55 minutes for—

Mr Carr: Okay, let them go on then. Thanks very much. I enjoyed it.

1100

Mr Sutherland: Thank you for being here, Mr Sherbaniuk. Yesterday, we had a presentation from the C.D. Howe Institute about opening up the process. Their focus was a bit different in terms of commenting on the fiscal outlook, both that the Treasurer had released and that we released back in January.

I was wondering if you would care to comment on that. Some of the comments heard yesterday were that while it was initially a good start, they thought the information you were presenting for the public to see what options the government had should be consistent with the type of information that was going to be in the actual budget document. Rather than being as selective as maybe the Treasurer was, the budget information should be out beforehand.

I was wondering if you could comment on the suggestion about consistency and just make some general comments in terms of the concept of a fiscal outlook document like that, showing what the decisions and dilemmas facing the government are.

Mr Sherbaniuk: I would be very much in favour of as much openness and provision of information to the public as possible. Therefore I would favour the kinds of statements we heard by the Treasurer earlier this year. A similar event occurred, as you may recall, shortly after the new government took office at the federal level in 1984.

Mr Wilson, as one of his first steps, gave us a state of the nation address as far as the economy was concerned. I think that is very helpful. It gives the public some idea of where the government proposes to go, and the more detailed the Treasurer can be in his statement the better. He has both the spending side to consider and the tax side. If he can deal with taxes and spending roughly at the same time, then certainly ministers of the various departments will have a better idea of what the revenue side looks like and may be prepared to constrain some of the demands they are going to make on the expenditure side.

One of the alleged deficiencies of these early announcements of what government intends to do is that circumstances change and you raise expectations on the part of the public as to what is going to be done. To take a case in point, the revenues realized by the government this year are much below what had been anticipated a year or so

ago. That point is referred to in this extract I read to you from the Economist. Their point is:

"The first argument for secrecy is that the fiscal position can change very quickly. For instance, government revenue from North Sea oil taxes can swing widely in response to shifts in oil prices."

I think their point was that the public should be prepared to expect, in an economy as complicated as ours, that times will change, that revenues may not be realized and that there must be a continuing consultation and dissemination of information to the public as these changes occur. It used to be that the budget was the great theatre for the year. Great expectations were built up; the nation focused on budget night and the minister had the nation in the palm of his hand. That day has gone. Take yesterday's developments, for instance, when the Minister of National Revenue announced that certain high-tech items were going to be brought in tax-free and that there would be an export tax, I think, of \$8 on a carton of cigarettes leaving the country. That was not a budget and we have come to expect these announcements as circumstances dictate.

Accordingly, it seems to me, the argument that is raised here is that you raise public expectations. If Mr Laughren were to deliver a State of the Union message and said, "These are roughly the sorts of spending plans we have in mind; these are roughly the sorts of revenues we expect to have; circumstances change," it seems to me the appropriate step to take is then to go back to the public and explain that circumstances have changed and that these are now the new objectives of the government. My answer to your question is that I would favour those sorts of economic pronouncements in the course of a year.

The Chair: We have run out of time. Sir, I would like to thank you for appearing before this committee. Your wealth of knowledge and your past experiences that we heard have brought some answers to this committee.

Mr Sherbaniuk: It is my pleasure. If the Canadian Tax Foundation as an institution or I as an official of that institution can be of any assistance to this committee in any way at all, you have only to request. Thank you for the opportunity to be here.

EVERT A. LINDQUIST

The Chair: The next presenter is Professor Lindquist. Maybe you could start off in the same way with just a little bit about your background. This is the first time I am meeting you as Chairman and maybe it is for some of the other members here also.

Dr Lindquist: I am currently assistant professor of political science at the University of Toronto. My teaching specialties and areas of interest for research are public policy and public administration. In particular, I am interested in organization theory as it is applied to problems of public policy and public administration.

I attended Carleton University at the undergraduate level in the area of economic and political science. I attained an MA in economics from the University of Western Ontario and then I went to the University of California, Berkeley, to the graduate school of public policy to do my PhD. While at the school of public policy, I was commissioned by the

Conference Board of Canada to produce a study entitled *Consultation and Budget Secrecy*, which looked at many of the problems with the federal budget process during the early 1980s. It was a comparative study. I looked at Australia, the United States and the United Kingdom as well as the province of Ontario.

Since that time I have continued with an interest in tax policy process matters. One of the chapters in my dissertation, which looked at the organization relevance of Canadian think tanks, used as a case study the tax policy process. I am quite familiar with the very good work of the Canadian Tax Foundation.

I should also note that there is a group of us in the department of political science at the University of Toronto who are quite interested in these kinds of matters. We set up a workshop on public administration and governance. We will be having representatives from the Fair Tax Commission come in to speak to us about how they are organizing themselves to conduct their affairs, and following that we will also have members of the budget secretariat of the Ministry of Treasury and Economics come in to speak to us about their first shot at a more open process.

I suppose my other qualification is that I assisted a small consulting team that helped the Ministry of Treasury and Economics to think about how to open up the process for the purposes of consultation.

First of all, I would like to thank you for your invitation to speak to this committee. My understanding is that the Treasurer has asked you to consider the following topics: what the modern consensus on budget secrecy ought to be; how legislators can be involved in a more meaningful way; in what ways the budget-making process can be made more open, more accessible and more meaningful to people outside the corridors of power.

On the first topic, I was aware that Professor Sherbaniuk would be speaking to you today and so what I want to do is to say as little as possible on the topic of budget secrecy. I have several reasons for this: In part I think that the conventions in Canada are quite clear on what constitutes a breach of budget secrecy, and even if you may want to codify some of those conventions it seems to me that there will still be great incentives on the part of members of the opposition as well as the media and various interest groups to claim that there has been a breach of budget secrecy.

I note, as probably Professor Sherbaniuk did, that in fact very few treasurers or ministers of finance have ever had to resign over breaches of secrecy. They have had to withstand controversy, storms in the media. My view on this is that kind of controversy just serves to take people's attention away from what is important about the budget or about the action that is causing the breach.

The worst transgression we have ever had in Canada that I felt was worthy of debate was the 1989 budget breach, the Doug Small affair at the federal level, and even then, as you know, the Minister of Finance did not resign. In my view it is very difficult to see how the Minister of Finance could have been responsible for someone who took the actions he did at the time. The only circumstances under which I can see a breach of budget secrecy to be

very important is if insider information has been traded or if there are clear actions that have been taken by the Minister of Finance or by the Treasurer, or non-actions, that resulted in the breach of budget secrecy. But that rarely, rarely happens.

I do not want to say this is a non-issue but I think the conventions have served us well. It is not clear to me that this may be the most productive area for the committee to pursue.

1110

What I want to spend most of my time discussing today is consultation. I want to begin by just noting that consultation is not only about government seeking advice; it is about individuals and groups outside government wanting to give advice. A third definition that is not ordinarily noted is that consultation can also be about the exchange of views. I think that is very much where we are going in this province. I would also like to point out that consultation does not necessarily mean generating consensus. I raise these definitional notes not because I am an academic, but because I think it suggests that the responsibility for good consultation does not just rest with the government; it rests with all actors who want to be part of the process.

In an earlier work I suggested that there were three kinds of consultation. The one that has dominated most budget consultations in this country today is what I have termed *speculative consultation*. It is the one with which you are most familiar. It is a closed process. The groups that are consulting with the Treasurer and the Minister of Finance have little to no information. They tend to meet with the minister one on one. Increasingly, these occasions are simply used as a photo opportunity for the press. The briefs of these groups consist largely of demands, usually a few solutions that involve a group's giving up things it no longer feels are necessary and, I might add, it involves a tremendous overload on the Treasurer or the Minister of Finance.

The other form of consultation is really *reactive consultation*—here I have in mind the November 1981 budget—where there is a decisive shift in policy. It takes groups by surprise. There could have been *speculative consultation* beforehand, but no one knew what was right around the corner. That kind of consultation is *after-the-fact specialist pleading*.

What I want to discuss today is what I call *agenda consultation*, which involves these discussion papers, which involves parameters that have been set out by the government before the consultation is undertaken. I think there have been tremendous strides in this area at both the federal and the provincial level here in Ontario, but it seems that it not really enough. Clearly the current government is interested in opening up the process.

I might also add that when you see people like Professor Sherbaniuk, as well as officials inside the Ministry of Treasury, as well as a variety of groups out there calling for more open processes, there seems to be somewhat of a consensus that simply producing discussion papers indicating that certain things are on the agenda and still using these traditional consultation processes are really not enough. What I as a person who has looked at the literature

and followed some of these events over the years personally find interesting about this is that no one has really tried to change the consultation process.

This is new ground. It is exciting ground. If the committee wishes to make recommendations in this area it will not have too many other examples to fall back on, and Ontario could be seen as a leader.

What does a credible consultation process look like? This I think may address some of the questions you were raising earlier. I think a credible consultation process has to involve consultations that feed into the decision-making process of the government. Right now, and particularly this year, we have consultations under way where many of the insights are just going to come too late.

A credible consultation process should contain a fiscal framework set out by the government that recognizes the fiscal prerogatives of the government, but that framework must also anticipate contingencies. This is a point I want to make later; it is one that I do not think Mr Sherbaniuk made. I think we need to find a way to let people know, in the documents beforehand, that there is the preferred scenario and there could be a better scenario and there could be a worse scenario. Given our contingent world we all have to begin to think more along those lines, because if we consult following one scenario and things change, then that is all for naught. We may be in that situation right now.

We also need reliable data people can count on. Again this brings me back to the question of scenarios, but also various groups need data that is specific enough for them to be able to talk about the issues at hand in a meaningful way. It seems to me that some of the broad budget totals and forecasts may not really help good consultations.

Good consultation should also involve the affected line ministries. One worry I have here in Ontario is that right now there seems to be a centralization of—there is an attempt to open up the process, and we can discuss that later. But this still involves a concentration of responsibility in the hands of the officials at the Ministry of Treasury and Economics, yet many of the decisions that are going to be made involve line departments and their constituencies, not the normal people who deal with Treasury and Economics. I think a good consultation process somehow has to bring those departments, as well as their constituencies, into the main.

Finally, I think a good consultation process needs to force outsiders to think about consensus and tradeoffs and also in terms of coming up with their own policy innovations to solve problems. It is not clear to me the current process is doing that all that well.

A good process also has to protect the Treasurer. I realize not all of you have a vested interest in that. But for any of you who know people who have been Treasurer, and I am thinking of ministers of finance as well, sometimes we expect too much of them. We expect them to endure all of the special pleading. It is not clear to me whether that is a productive use of that person's time, nor the time of his or her senior staff.

Very briefly, I would like to set out three different models you might want to think about in terms of the consultation process. All of them could use a more contin-

gent way of thinking. Is the economy going to stay on the same trajectory? Is it going to lurch off in one direction or another? Is the deficit going to be up 10% or down 10%? That is contingent thinking.

The first model would be to retain the traditional petitions, either to the Treasurer or to this committee. The idea here is to see as many groups as possible, give them their day in the sun, allow them to present their brief and allow them to show their constituencies they matter and they have been heard. That really is the status quo, but I think by providing different kinds of information that process can be improved. The important thing is to get those groups to speak to the agenda the government is considering. I realize the agendas of the groups may conflict with that.

A second possibility is the current embryonic process that has been launched by the Ministry of Treasury and Economics. What they are trying to do is have several round tables—I am sure you are familiar with this—to bring in various stakeholders, so to speak, to collectively discuss certain issues in different areas. Again that could be done on a fairly contingent basis.

A third possibility would be one that is more elaborate. For people who doubt the possible effectiveness of the round table approach, I would urge them to reflect upon the current constitutional conferences and the very interesting dynamic that has been occurring. A lot of the experts, a lot of the people who were steeped in constitutional affairs, felt that those conferences could not be very effective. What I would suggest is you may want to consider a more elaborate conference approach where you get many more people in the room to discuss the issues of the day, rather than have these round tables that might involve no more than the number of people around this table in proceedings where the dialogue never really makes it out into the public domain.

1120

I think people need to see that there are a lot of competing agendas, that there are serious constraints everyone is dealing with and that people can talk. The problem with the current process, in my view—it is not clear to me the round table approach will necessarily solve this—is it exacerbates our tendency to talk past one another. At this point in our economic cycle I do not know if that is the best thing to do.

What about the role for the standing committee? There is always a problem thinking about the role of committees like this in parliamentary systems. You are much more familiar with those problems than me. The simple reality is that standing committees in a parliamentary system are not transformative in nature. You cannot do too much with the legislation. There are always a few proposals out there to suggest that you get involved in a more meaningful review of tax legislation, that you hold more and more hearings. That is part of the Nixon paper and proposals. My response to that is, unless you have a lot of staff resources, how can you really change the agenda? How can you really analyse all that material well and make a distinctive contribution?

One possible role in a more open process is to really position the committee as a catalyst and as an agenda-setter,

so that your role would be more as an instigator of certain themes that would be the focus of pre-budget consultations by various outside groups. You may even be able to set up an alternative agenda to that of the Treasurer. I also have in mind things like perhaps you could be the custodians of tax expenditure review and look at the tax system that way and perhaps shed light on some dubious tax policy.

I think I will leave it right there for now because I realize time is short. I urge you to think along those lines because I believe a more open process contains a lot of opportunities for the committee itself. It is not clear to me that the 1985 proposal, which was adopted here, which involves just having people again coming to the committee to present their views, is really fulfilling the potential of the committee. I urge you to think about the Blenkarn committee during the early years in Ottawa. I think it was enormously effective that way. You may not all have liked Don Blenkarn, but I think they really did open up the agenda in Ottawa.

Mr Carr: Thank you very much for participating. I have numerous questions. I want to start by getting your comment on a couple of areas. I agree we need more consultation, and you touched on the constitutional conferences. One of the good ideas that came out of that is with regard to the televising of those debates and really getting consensus. We are in a crisis right now economically that is going to drive the standard of living down if something is not done. Much similar to the constitutional crisis, we seem to wait until we hit a crisis before we do that.

Along the lines of the discussion on the economy, as we are doing with the Constitution, in order to participate we have these great conferences and you get three lines or one little, tiny report that is filtered by the media in the newspaper. Do you think we could have some type of economic discussion similar to the constitutional committee that could be televised? Then the public could really try to understand the problems and hear all sides of it. They can make informed decisions about what they feel needs to be done. Do you think that would be something we could look at, or would all the time and effort be more than it was worth?

Dr Lindquist: That is a good question. I think there should be such an activity. As I noted earlier, one of the concerns I have about the round table process is that many of us have not heard too much about it. There could be some really wonderful, meaningful events occurring at those meetings, where people from all sides of issues really come together and determine what the priorities are. But that is sort of lost to the public. What they tend to see are the media bites being hurled back and forth by various groups. I really do not think that is constructive. I also think it continues to play into the view that if we keep on making our demands just for us, one day we will be served, and it does not matter what other people are dealing with.

I will tell you one reason I am very interested in this idea of having perhaps a larger event or two or three events, and I would not have said this three months ago. But when I look at the constitutional conferences I see they

created a dynamic of their own, a dynamic that the organizers never anticipated. What that allows to happen is for Canadians to be quite reasonable, which I believe is the case. I believe that of Ontarians too. When confronted with the same information, when you sit across a table or in a hall with someone who is a welfare mother and you have a corporate lawyer there, I think they can begin to talk and decide what really is important. We need a lot more of that.

How can we set up a good process? I have not thought about that in great detail. I think we would need more than 20 people; we would probably need 100. We need to have a good mix of people from all walks of Ontario society, particularly from rural and urban Ontario. One criticism of the round table approach is that because it is trying to create an aura of intimacy it is an elitist process: You can only invite so many people to these round tables. A larger conference would have the salutary effect of bringing more people there.

Mr Carr: That is always difficult. People have said the way we did the Constitution before with the 10 premiers was really elitist. You are never going to be able to satisfy them. The reason I mentioned the TV aspect is because in speaking to people I was amazed at the number of people who actually watched. I know there is a lot of debate saying no, that should just be for Parliament. We should save the TV that is piped into virtually every home that has cable across the province for Parliament. I am also amazed by the number of people who actually watch that station and watch the debates. I have always thought it would be helpful along those lines.

I want to get specific now because this afternoon when we do our report I would like us all to start thinking about how we would make a recommendation to the Treasurer along those lines, because we are in an economic crisis.

With regard to the Fair Tax Commission, which again is a very good process, we are getting minds together and we are probably going to have minority reports. You may have heard some of the comments when you were here earlier from the previous person. It has been a fairly good cross-section. But again, that report will come out and I guarantee that the average person going to work will not know very much about the process. I spoke to people from the tax coalition the other night who you would think would know a lot about it. While they have heard of it, they really do not know the process. The government, in all fairness, has attempted to get it out, but it has not.

How do you see us publicizing that? Again, could any of those so-called experts be used in a televised event? Could it be those people who we look at, who talk and debate their two sides, now that they have had their go-rounds on, for example, the corporate side? Do you see any worthwhile point in doing that with those groups of people?

1130

Dr Lindquist: It is not clear to me that having the proceedings of the Fair Tax Commission televised would necessarily be constructive, because there is a lot of arcane work that goes on. But at some point it would make sense to me to perhaps have a number of the proposals that the Fair Tax Commission is working with put out on the table

and to have some kind of public forum to discuss this with many of the stakeholders that they have worked so hard to bring into the process.

One thing I am really concerned about in Ontario, but also in Canada, is the discipline of various groups and outsiders. What I can see happening is that even if we were all to agree that the Fair Tax Commission was a wonderful process that produced some well-thought-out ideas, that all the participants really had touched the various proposals and shaped them, there is a very real possibility that as soon as that thing hits the public, it is just going to be blown right out of the water, just like the Carter commission. Doug Sherbaniuk could have told you, and some of my colleagues at the University of Toronto who were involved in the Carter commission can tell you, about the pain and suffering that some of the researchers as well as the commissioners had to endure.

That kind of vicious debate seems to be one that is right around the corner. You just have to think about the current budget difficulties that the government finds itself in. I am not defending the government here. I am not interested in specific proposals. I am interested in the poor quality of the debate on all sides, and in the end I do not think taxpayers are being served well. We have to find ways to make sure that people out there on all sides can talk about these issues in a reasonable way so that citizens can have a bit more confidence in what our policymakers are doing.

Mr Carr: I agree with that. Unfortunately, the way it is now, without it being televised, what we get down to is 30-second clips. All sides use it and whoever can best get the one little bite gets on, and that is unfortunate.

Along the Fair Tax Commission idea, one of the proposals people have talked about is, as has happened in Nova Scotia, almost these open forums. Again, you always get special-interest groups that come to those, but the theory is that the average person can come out and have his say. I am thinking now of what happened with the New Directions consultation. I went to one the other night on our health care, and basically nobody was there to preach to them. They had an open forum and recorders who took some of the ideas back. Very constructive ideas came out.

How do you see that process working? Do you like what has happened in Nova Scotia with these open discussions, and how would you see that structured both on pre-budget and on what the Fair Tax Commission is talking about? Because, again, we are not talking about what you talked about earlier like the Constitution where they tried to get a consensus. It is just basically putting it out on the table. I guess Monte earlier said that sometimes that is not helpful because people go away frustrated. Do you think there is anyplace for the open forum, for the average person to come out and say his feelings with regard to the tax and the budget?

Dr Lindquist: I am not familiar with the Nova Scotia process, but I understand the point you are making. My sense of the constitutional conferences is that even though there is tremendous pressure to create consensus of some kind, what it is really doing is sort of narrowing the range

of possibilities, and there are some general tradeoffs being made. I do not think most of those participants think that an agreement is going to come out of those conferences that gets handed to the government and then they will just sign on the dotted line with the provinces.

So too with budget consultations. I certainly would not advise the Treasurer or a committee to try to generate a consensus. I think the idea is to educate and to give citizens who want an opportunity to speak a chance to speak. That is fine. It is also for them to speak with other people and think about the implications of some of their arguments.

One big problem is that you can have a very open process but, let's face it, most of us do not think about writing to a commission and taking the time out to present to a forum. Most of the involvement of citizens in these kinds of processes is passive, but I think it is a very important form of participation.

TV is serving us well. I think a lot of people who watch the constitutional discussions now have a better idea of what the issues are. I think that will show up in the opinion polls down the road. They will be more receptive to certain ideas. I do not want to suggest that these consultations are instrumental in softening up the public. They do have a dynamic of their own, but I do not think we should necessarily see it as a way for the public to present all of their views. That just will not happen, and they certainly will not come to a consensus.

Mr Sutherland: You mentioned that you were part of a group of consultants that talked to the Ministry of Treasury and Economics about how they could open up. I was wondering, now that you have seen a first step, whether you could comment on what you think about the Ontario Fiscal Outlook document, where you think they should go next year in terms of doing this process, maybe a better sense of the time line they need to do this in advance of the budget, and then also maybe comment on the comments we heard yesterday from the C.D. Howe Institute about the consistency of information in a pre-budget document being somewhat inconsistent with what is actually in the budget itself.

Dr Lindquist: Since I am not really a professional economist, I am not in a position to evaluate the content of the fiscal outlook document. I leave that to the Tom Kieranses of the world.

In terms of the other very important parts of your question, I think that, first of all, information has to be available to people before these discussions take place. Second, the discussions have to take place early enough to feed into the deliberations of the Treasurer.

There is no doubt in my mind that this year consultations are taking place too late. The risk is that a positive step or a step with, in my view, the best of intentions would be looked at in a very cynical way. The big decisions about the budget will already have been made by the time most of those groups start talking to the Treasurer. Even if that is not true, it looks that way. There are certainly people in the ministry who are aware of that, and for a variety of reasons that process started late this year. I would urge the committee to suggest that these consultations

take place in December and early January to feed into the runup to the budget.

The problem is that the earlier you start the consultations, the less likely any of those numbers in the document are going to be valid by the time you get to the discussions with the various stakeholders, and they most certainly will shift three or four months later when the budget has been presented. The concern of Professor Sherbaniuk and myself is simply what happens when you have consulted, based on certain assumptions, and those assumptions change dramatically. Whose fault is that and what does it mean to all the people who participated in, say, the round tables? Do you just throw that out the window? That is why I have been suggesting that there need to be some contingent figures in those documents, and I do not think they go far enough in doing that.

The other thing is that, although I did not mention this in my demiprepared remarks, it seems to me that the most fruitful discussions take place in various sectors. We could talk about health; we could talk about skills training development and so on. One way to make those consultations more meaningful is for the government to say, "Look, we have these parameters of the budget set out, but we have a pot of money over here we don't know what to do with and we want your input on what the priorities ought to be there." It could be \$10 million if the \$10 million could be found. Then the groups come to the table knowing they are involved in discussions on something that has not been sealed in stone. Those numbers could change, of course, depending on the fiscal situation, but I think more thought has to be given to it.

1140

That creates other sets of problems, though, because the government has to have its act together. The government needs to have made some basic decisions about how large certain pots of money will be, and it needs to stick by those decisions and allow the process to work itself through. It is not clear to me that this would easy for a government to do, but it is only under those circumstances that I can see consultations being really meaningful. People need to see that there is something up for grabs. Interestingly enough, even though we do not like to see our governments being indecisive, people need to know that the government has not made up its mind in particular areas.

I find it hard to believe you can have those kinds of discussions on macroeconomic policy, because I think we expect our governments to have their minds more or less made up on basic expenditure and revenue targets.

Mr Sutherland: This committee did its pre-budget discussions on the so-called MUSH sector—municipalities, universities, schools, hospitals—a little differently than in other years. Rather than each organization that wanted to come in, we asked certain organizations to come in. They came to the table at once, and we set aside a little extra time. We allowed each of them time to make an individual presentation and then we questioned them as a group, having them here beside us and allowing them to comment with each other and respond to the other com-

ments, somewhat in the hope that we would get some type of consensus. When we did that, we did not really, as I think you have suggested and maybe Professor Sherbaniuk also suggested, set any parameters. We did not ask them to respond to three or four specific questions in their brief. Is that the type of format you are suggesting for round table processes?

Dr Lindquist: I would suggest that format for any of the three paths I suggested, whether it is one-on-ones, a round table or more of a conference format. Consultations are useless otherwise. Certainly my own research indicated that the groups that get listened to the most are the ones with the best briefs, and the best briefs are usually produced by groups that have the most resources and are also usually from professions that are used to doing professional briefings, so that is very helpful to all concerned.

Even with those professional briefings, I might add, unless they are dealing with questions that really interest the government or the round table, it is just wasted effort for all concerned, except that the media gets another bite. So I would think it is a very good idea for the government to delineate what it wants to hear about and to be very clear that it has not mind up its mind on those issues, because I think people sense very quickly when something is a charade. Even if they do not sense it at the time, when dramatic decisions are made later that do not seem to be keeping with the spirit of the consultations, they are very cynical for the next round of consultations.

Mr Sutherland: So it has to be setting parameters with questions, but the questions are being presented more in an option type of form than a specific "This is what we're planning to do"? Tell us what you think.

Dr Lindquist: That would depend on how thoroughly the government has thought through that issue. Again, I would say that parameters should be set and that the government ought to feel it can live with various ideas, perhaps consensus, that would come out of these processes within those parameters. In a way we would almost be delegating some authority for policymaking there. I realize that may seem a little idealistic, but I have been asking myself what meaningful consultations would look like, and I know that in my dealings with various people I do not want to be consulted on things I cannot change.

The Chair: You have about two minutes. Mr Jamison.

Mr Jamison: My experience has been that if you carry on consultations and you do not listen to the particular group you are talking to, and this is a reality, obviously afterwards they say that the consultations were useless. Consultations are there to gather information. Some of the information we already have and some we do not, and that has to be weighed and factored in, so I do not necessarily agree that consultations are useless.

You run into the problem of a group or groups that come forward and put forward their impression of the way the world should be economically. You either agree with them or you do not, and if you do not, then the groups tend to go away and say that the consultation process was a sham. You are not going to get away from that unless you

do everything that everyone wants you to do. So I have some difficulty with that particular statement.

Dr Lindquist: Let me think about how I want to respond to that. I agree with you that information can be mined from a series of one-on-one presentations or written briefings. I might say for a new government the first round of budget consultations is always very informative, but if you have been in power for two, three, or four years, you find yourself getting the same briefs. You hear the same things, and then it becomes increasingly a bit of a charade unless there are really different issues on the table.

Based on various interviews of officials I have conducted over the years, these same people would not say not to have the consultations, because there are some good things that come out of it. But what they are saying is that in 95% of the content of those consultations they could have told you what those groups would say before they walked through the door. Based on that, it does not seem to me that there is a lot of value added.

A lot of the groups feel good because they have produced a brief and they get some recognition for doing that. Maybe we just need to do it for symbolic purposes, I agree. But I am not saying that we dispense with it. My sense is that if the committee were to think about enhancing the round table process or perhaps going with a more elaborate process—I am in no way suggesting that you dispense with the one-on-ones. You may have to retain that. You have to give individuals and groups their voice, but I just do not think that in the current fiscal environment that really helps policymakers deal with the problems at hand.

Mr Kwinter: Professor Lindquist, I was really interested in what you had to say because it reflects a lot of my feelings about this whole consultation process. I have been saying for a couple of years now I think these hearings are far too late to make any impact on the budget, and second, there is not really a mandate to give advice to the treasury people that is going to be meaningful.

What happens, as you say, is that people come forward and you can almost predict what they are going to say just by where they are coming from. It is useful certainly from their point of view, because they can tell their membership that they prepared this brief and they can circulate it to their members to say, "Here's a brief that we presented to the standing committee of finance and economic affairs at the Legislature." It gives them some credibility that they are out there working. They are doing their thing and they are making their voice heard, and whether it is being heard or not is irrelevant to them. They have done their job and they have satisfied their membership that they have done it.

You talk about these two agendas, and it would seem to me that the only way these consultations can really be meaningful is that there has to be initial input from the Ministry of Treasury and Economics as to what they would like to get some input on. They say, "Here are the issues that we think are kind of critical this year. You, as the standing committee, go out and get us some input from various people who are going to be impacted by this as to what we should do." It should be done early enough so

that it can have some relevance, and it should be pointed out enough that we get the right people who can respond to it.

I will give you an example. It is just a typical example, and every government has the same problem. Last year in the budget a gas-guzzler tax was imposed. Again, without being partisan, I think it was poorly conceived. It did not do what it was supposed to do, and the Treasurer had to retreat after he announced it because everybody was upset with it. Even his normal supporters were upset with it.

There was an issue that could have been resolved if someone had taken the time to say: "We're kicking around this idea of imposing a tax on cars that use a disproportionate amount of gasoline. What are the impacts of that going to be? Let's get the auto workers in. Let's get the car dealers in. Let's get some road associations in. Let's get all these people in and let's kick this thing around to see what it is that is going to be the result of us imposing that tax."

If they had had that kind of consultation, they would have heard all of the things they heard afterwards. They would have said: "Okay, now that we've heard all that, this is what we think is the way to do it that is going to cause the least dislocation for all of the parties concerned." Everybody would have felt they had some consultation. Maybe not everybody would have been satisfied, but they would have felt they had their position made known, the budget would have reflected that, and you would have had a decision that, as I say, would not have satisfied everybody but everybody would have felt at least they had a chance to have some input into the decision. I just bring it up because it is one that comes to mind.

But every budget—and again, as I said, it has nothing to do with a particular government—and every government brings out a measure that immediately draws a lot of flak because people say: "There was absolutely no input and they did not think the thing through. It sounded like a great idea from one perspective, but if they had taken a look at the other side it would have created some additional problems. Why was this not addressed?"

I think it really is a difficult situation. As you say, it may be idealistic. How do you get people who do not have political responsibility to craft a budget? How you do that I do not know. But I think the only way you can even begin to do it is to have more directed consultations, where you know exactly the areas that you want to get some input on, and also more timely consultations. Any response to that?

Dr Lindquist: Really just to add to your comments that my sense of many officials in the province, but also at the federal level, is that they are quite receptive to this line of thinking. Many of them are part of the new age of openness and so on. They are sick and tired of being told they are secretive and that they like to spring policy surprises on the public. But no one has told them how to go about consulting with the public. It is not a problem with just your committee. There are lots of officials in the Ministry of Treasury and Economics who would like to figure this one out.

The only advice I can give is, perhaps it is time to dare. It is time to try something out and see whether it works and make it very clear in your report that this is an experiment, and put

"experiment" in block letters. "We're trying to deal with these problems. We're on new territory here. We're dissatisfied with the status quo. We're not quite sure what will work."

I think the public is more receptive to that willingness of policymakers to admit some vulnerability there. Perhaps we should just try another process to find out what works. I do not think the outcome can be worse than the example that you just mentioned or the November 1981 budget brought down by MacEachen at the federal level. We certainly want to avoid that at all costs.

The Chair: I would like to thank you for appearing before this committee here today.

The research clerk here has draft report summaries that she is going to hand out now, so if anybody over lunch has some extra time they can read them. Make sure you have them back here at 2 o'clock. We have only so many copies. This committee is adjourned until 2 o'clock sharp.

The committee recessed at 1155.

AFTERNOON SITTING

The committee resumed at 1431.

The Chair: The committee will start again with debate on the draft report preparation. We have a letter here from the Ontario Public School Boards' Association. There are some areas of their report which seem to be not too clear and I believe some mistakes on the short forms that have been used. If you could wind up maybe reporting on the letter, Anne, since you were here on the writing of the report, if there is a mistake compared to the final draft.

Ms Anderson: The Ontario Public School Boards' Association is correct. There is an error in the draft that went out. The error is in the attribution, as they say. In the first bit, in the quote that they give, the Ontario Public Trustees' Association should in fact be the Ontario Separate School Trustees' Association. The other inaccuracy they cite is also the Ontario Separate School Trustees' Association.

I apologize for the inconvenience this has caused. It came about from the summary of recommendations, which lists the recommendations the different groups give and gives an attribution to them. There was a wrong attribution in that because both the summary and the draft were done in fairly short deadlines and the error got repeated into the draft.

Mr Sutherland: The one thing I want to do is a little bit of follow-up with the public school boards. It is not so much in those areas, but the comment made in the second last paragraph.

The Chair: This is on page 3?

Mr Sutherland: This would be on page 3, I believe: "Clarification of the role of the standing committee as adviser to the Treasurer of Ontario." Also in the last paragraph: "As well, we would suggest that the 'round table presentation format' should perhaps be reviewed."

It implies to me that they have some ideas as to how to do it differently, but they have not elaborated on it. If we are sending them any formal response to this letter saying that we have recognized that the attributions were not correct, I would also request that, since they are suggesting it be reviewed, we ask them that they send us what they think a better format would be.

The Chair: What about Mr Carr? Do you have any comments on this? Do you agree with Mr Sutherland's comments? If you have some ideas, send them along.

Mr Carr: Yes, I agree with Kimble.

The Chair: I will be talking to the clerk and we will send a letter off to them.

Now a little bit of direction from the committee members on these pre-budget consultations with our summary.

Mr Sutherland: I thought that this afternoon's discussion might focus on the issue about opening up the budget process. In terms of us getting a report to the Treasurer, I have had it indicated that they would like to have the report by March 1 in order to be able to put it into serious consideration for overall deliberations. Since this committee will not be meeting again before that, this implies to me that we need to have some type of format.

My suggestion would be that we have Elaine as researcher do the normal background stuff and do a summary of what we heard from the forecasters in terms of that as background, and that we then establish an appropriate date that each of the three parties submit our recommendations on what should be done in terms of fitting that into the time line of March 1 being an appropriate date to have this to the Treasurer.

The Chair: Would we not be getting back together one more time to go over the draft the researcher has given us?

Mr Sutherland: My sense would be that so far this committee does not have a mandate to meet again. But maybe a subcommittee meeting could be organized to do that between now and then. That would probably be appropriate just to go over some of it.

The Chair: Maybe we should ask the researcher what would be a time line for preparing this to give us a better indication of when we could meet before March 1.

Ms Campbell: I would like some clarification as to what is wanted in the report. Just a summary of what the forecasters presented to us or a bit of an overview of what the other presenters said to the committee?

Mr Sutherland: That could certainly be part of it, I think, if you wanted to highlight the issues that were raised, some type of summary like that. Then we could get together. I do not know about your schedule, Gary. If we could arrange for a subcommittee meeting some time on Monday, February 24, that day is good for me.

Mr Carr: It is for me.

Mr Sutherland: If it is good and if we get one of the Liberal representatives here, I know I am going to be here in town that day for sure. If we use that as a day to go over it, I guess that would give us a little over a week. I do not know if that is the most of amount of time but unfortunately—

Ms Campbell: I am sure it is more than—

Mr Sutherland: I am sure that all researchers are getting used to the fact that they never have enough time to write reports in the way they probably should be written. But if we set that as a date for going over that and if we also set that as the date that we should be able to have our individual reports ready, it would make it easier. Would that give enough time at least to put it together to get a copy to the Treasurer for the March 1 date?

Clerk of the Committee: Yes.

Mr Carr: I think that would be a good idea. As you know, we have already put a document together, New Directions: Blueprint for Economic Renewal, a lot of which the Treasurer has got and the Premier has got. That is the one that 11,000 people have called in for. I think that shows there are a lot of people out there who do want some discussions and some talks. If anybody wants copies I can get them to you. I have passed them out to some of the Liberals.

In terms of some of the things we would like discussed, that lays out everything right from training all the way through to the pre-budget, post-budget consultation. We can have ours pretty well ready any time. I am going to be in Toronto on the 24th anyway so I can meet—

Mr Sutherland: If we leave it for the Chair to call that meeting for that day or find a time along with the clerk and all the members, that would probably work out the best.

The Chair: Let's see if we can call it for 10 o'clock as it is right now so everybody can put it in their schedules.

Mr Sutherland: That will not be good for me.

The Chair: Let's talk about it now.

Mr Sutherland: Probably 12:30.

The Chair: Okay, perfect, 12:30. I guess Mr Kwinter would be—

Mr Sutherland: Mr Kwinter or Mr Phillips, as long as there is at least one representative from there at 12:30. If not, then it probably would have to be 3 o'clock for me.

The Chair: Looking at the groups that were presenters and just looking through here, since we do not have the Hansards—I do not know whether you have the rough Hansards or not—there might be some additions that want to be made. I see no reference at all to the group Project Economic Growth, which had a good presentation.

1440

Mr Sutherland: It is noted here that Hansard was not ready when the report was prepared.

The Chair: Okay. There are areas that have to be looked at.

Mr Sutherland: Perhaps we will get them as well. Once we get a Liberal representative back, if that is satisfactory for that aspect in terms of having some more discussion on the opening up of the processes, I certainly think we should be able to do that this afternoon.

The Chair: Mr Phillips, at least two thirds of the parties here, the subcommittee, have agreed to meet again on February 24 at 12:30 with recommendations for the final draft. We just want to make sure that either you or Mr Kwinter could be available there that particular day.

Mr Phillips: I am pretty sure.

The Chair: The Treasurer is looking for it on March 1, so we are giving the research staff enough time.

Mr Sutherland: March 1 is Sunday, so March 2.

Mr Phillips: Yes.

The Chair: The other thing is that we could possibly get a rough copy of Hansard out to each of the subcommittee members so that they are able to make some notes for the 24th.

Mr White: I think it would be helpful if it could be sent to the other committee members as well.

The Chair: We can see that each member of the committee is mailed a copy.

Mr Phillips: I am sure that will be fine with one of us. You can count on one of us.

Mr Sutherland: Elaine will do a summary of what the forecasters told us and also highlight some of the issues of the presenters. Then each of us will come forward with our recommendations to add them to the report. Hopefully by that date we will just go over the background material if there is anything we notice that we want to change. Then it can be put together?

The Chair: Mr Sutherland wants to carry on with opening up the process. Do you want to make a statement?

Mr Sutherland: There is only one statement I want to make in terms of having some discussion this afternoon. I think we heard some good comments and some good suggestions. I do not know if we can place in stone what needs to be done; certainly anything to open it up.

The Nova Scotia approach is rather unique or novel in terms of ministers going out. I do not know whether it is any harder to do there than it is here, because they have less cabinet ministers and they have less people and places to get to. Even if we had the type of background document that all 130 members of the House could have so that they could go back and do something in their ridings to get some input on what people could do with the budget, that would certainly seem good. If we could get some type of handle on what the actual material is that they are taking out on their road show in Nova Scotia, that would be helpful.

It certainly seems something of that nature, either town hall or whatever, maybe in some senses the Ontario Fiscal Outlook in a revised form, either with more information added or specific things, would be the only document you might need to take out with you to do that. I think we heard from the C.D. Howe Institute that you should have evaluations of all the programs that are going on.

I think Ms Ip has given a lot of thought to it. I still see that document piling up very, very thick in terms of some of the things she was suggesting. But maybe you could have it so that you could review the programs from the previous year or new programs initiated from the previous year and have some type of evaluation based on that. Those are just a couple of thoughts. I would certainly be very interested in hearing what other members of the committee think.

Mr Phillips: I will make a few comments, one in a slightly partisan way. I think the Treasurer in his comments earlier said that more information has been released this year than ever before or that it is unprecedented. I look back over the stuff that has been released over the last three or four years and there is very little difference. I do not know where they got off on the "unprecedented release" of it.

On the secrecy stuff, my own instincts are that there is virtually nothing we need to worry about on secrecy, apart from the point at which the Treasurer begins to make decisions. Then it has to be secret because that becomes something people can profit from. But up to that point I do not think anyone would mind it being wide-open. In fact, it essentially is wide-open. I think everybody assumes any tax is possible for change and any program might be cut or increased. I happen to believe the reason for budget secrecy

has more to do with treasurers not wanting to get into huge spats with the public, the opposition and their own caucuses, maybe their own caucuses first because if there is ever going to be a tax increase, the thought of that came out. I think budget secrecy has as much to do with that, at least more recently, than anything else for all treasurers.

I think the Treasurer wants some comments from us on opening the process up. I at least think virtually everything should be open, up until the point the Treasurer says, "All right, I appreciate the input. Now we are going to put our document together," and the process then has to close because the decisions are begun to be made. That would be one piece of advice I think we should pass on. The second one is, what is the process? There are three possible processes. Bureaucracy can drive the process, this legislative committee can drive the process or it can be driven by the government. The Nova Scotia model, I think, is a government one. If you are in government it is a neat one because my suspicion is in the Nova Scotia one there are not opposition members at those things.

Realistically, this committee has been pre-empted by the round tables, like the Ontario Federation of Labour. I must tell you that I am really offended by the letter they sent us saying, "We don't even want to come and talk to you." If you read the letter, I have been asked to let you know by the OFL—Wilson did not even have the courtesy to send us a letter. It was from someone like the research director. There is nothing wrong with the research director, but "I have been asked to respond to you." In the OFL's mind this committee is irrelevant.

I think we have to make some determination on that. If you are the governing party, you might very well want to ignore the committee because it is easier to run your own process. That is what Nova Scotia has done. That is a big issue. I happen to think—I am rambling here—it is in vogue right now to not use the traditional political process. That is the Constitution now. I think the debate has gone out of the traditional political realm into these five constituent assemblies or whatever you want to call them.

My own instincts are that the committee should debate that. We can say, "All right, do your thing and this committee will essentially be irrelevant in the budget process," or we can say we may want to drive the process in future years. On secrecy, I think my recommendation and advice to the Treasurer would be that I see virtually nothing that needs to be kept secret. In fact, the Fair Tax Commission is already looking at every possible tax. The treasury board is looking at every possible expenditure. There is not much more that is not being looked at.

On the process, I think we are in danger of the legislative committee being irrelevant. If we follow the Nova Scotia one we become even more irrelevant. As an opposition politician, you can say: "Fine, then they can take all the blame too. We won't have to take any of that responsibility." I think we need to debate that. I am not sure we can do that all today. So I guess we want to talk about the secrecy stuff. That would be my own instincts on it.

1450

Mr Carr: I talked to a couple of the NDP members before, and what I was going to throw out is the suggestion that has come forward regarding the Constitution committees. Some of you may know we had that here in Ontario. It took a couple of days. Each party took about 20 people in. It was very effective and got quite a bit of media attention.

I think we are in a crisis now in the economy. I think all sides are trying to be non-political. I would suggest that we think very seriously about it. I have said that the conference came off very well and seems like it was fairly easy to organize. I will probably be told it took eight months and millions of dollars to do it. I have no idea what the cost was or the amount of time. It was very effective because it was what was being done with the Constitution.

You had round table discussions, you had focus groups, you had facilitators just like we have seen on TV. I think we could do that. It would give the opposition parties a chance to come in with constructive ideas. Amazingly enough, I think over the last year as a result of the crisis we are coming closer together to a consensus. I think back to these hearings last year and see the different directions everybody was at. I think it would be very worthwhile to do that, again not knowing the cost involved in it because if it was expensive and took a long period of time—my sense is that it did not take a long period of time to set up and that it was not that expensive. I may be wrong.

I would even suggest we should go so far as to televise it as the House of Commons has done with the federal Constitution. It would be a bold step. I think we all recognize there is a crisis as a result of the Premier's speech on the 21st; everybody out there knows that. That would be this committee's chance to say, "This is what we recommend to do."

I mentioned it just before lunch to the other group. I do not know where the government is from its standpoint. I think it would give them a chance to again say we are listening in a non-partisan manner, because we had equal representation. The Conservatives could pick 20 of the specialists who would come and talk, and the people who would come would be some of the ones whom we from our standpoint have been talking about as having some of the solutions, and the same from the NDP and the Liberal sides. We might be very surprised at the consensus we get.

I throw that out for people to talk about because I think somehow we need to get out to the public more. On the subject of the Fair Tax Commission, we had the chap come in there and with the resources is doing the best job he can to try to get that message out to the public. They have had some of the ads. They give you those brochures that tell about the process, all very well. They give you the steps, "This is what we're doing to communicate to the public."

The fact of the matter is I do not think it is their fault but I go out to the public and they do not know anything about it. They have heard about it but they do not know about all these processes. Even to the point I talked to my municipal politicians, saying: "You'd better be ready because property tax is going to be discussed on—" I forget what the date is. "Think about what you would like to see." Every time we all talk to municipal politicians they

say: "What are you going to do on our property tax? It's all your fault." They did not even know that there was a process that is part of the Fair Tax Commission. They heard about it. They are not preparing for it. At least Halton is not and Halton historically, not being prejudiced, has been fairly progressive in terms of planning.

Something like the Fair Tax Commission that we have attempted through the old means to try to get out the public, it just has not happened. What will happen is that when the report comes down and all hell breaks loose when the recommendations come to the Treasurer, as I understand they are, then people will say, "Oh, my goodness, what is this thing all about?" Maybe ultimately in the end the public is going to find out about it. That is why I suggest the television standpoint.

The Constitution one we had, if you remember, kicked off with the Premier speaking to opposition parties. It got a lot of press, a lot of media and gave everybody an opportunity to throw their ideas out. I say that for us all to take back and think about. I think it would be an excellent idea. I have not talked to anybody else in my caucus, although when you are in the opposition you do not need to because ultimately the final decision will not fall on us, but I throw it out as a practical solution that may be helpful.

The Chair: Just a comment from the Chairman here is that the point is: Has it ever been televised, just the procedure going on here at Queen's Park, or has it always been untelevised, so the people had no idea what we were even doing at this point?

Mr Carr: Yes, they do. They view the committees, for example—

The Chair: Yes. So this committee is—

Mr Carr: This one probably has not been on yet.

The Chair: It has never been on so they do not even know what we are doing at this point. You make some good points, Mr Carr.

Mr Sutherland: I think there is some potential to hear the work that someone suggested. For example, when I suggested Nova Scotia I did not mean necessarily following its exact model. For example, potentially if the fiscal outlook book came out some time before Christmas you could use that as a basis for province-wide hearings for this committee. In terms of this committee continuing to have a valuable role in terms of what people are saying, that would be a combination, because whatever is in the fiscal outlook the government is setting, but then it is still allowing all members in all parties to respond to the options that are put forward and to hear what people say.

There is potential there to mesh them and ensure that this committee still has a role. I know Mr Jamison had a question earlier this morning about the value of the information-gathering this committee has done in terms of its pre-budget hearings. I think there is a great deal of value. Being a new member, I think I have probably learned more in this committee than I may learn on any others just in terms of all the different groups and the different aspects you get. Potentially you could go out and do that if that document can be prepared much earlier out to the public, those who want to participate, and then we use that as the

basis of the groups or individuals coming forward and responding to the issues outlined in a fiscal outlook-type document.

There certainly is room to get more input into the entire process. This time we are a little limited because our committee was not necessarily given the priority for committee hearings. In some ways that has been good too in terms of not sitting as many weeks as other times. The budget is, as people have said, probably the most important document that comes out each year on where this government is going. We could do something of that nature: have the fiscal outlook book out, I do not know, late in November or early December, give people time to look at it and think about it and then we could do two or three weeks around the province and people could come in and give their specific comments on that.

That would certainly help the Treasurer a great deal in terms of getting a much broader feedback on the specific document. I like the idea of round tables. I think there has been some good comment made in the last day or so that they need to have some focus rather than just individuals coming in and doing their type of thing. The fiscal outlook book could be the thing to give them that focus.

The Chair: The other thing is, I know Mr Phillips had stated that there is a lot of discussion in this particular area. We studied cross-border shopping; maybe when the House is sitting again this could be an issue we could be studying and bringing other expert witnesses in to assist us in this particular area.

I know there are some very good facts in, say, the Nova Scotia system and some European governments. The country of Denmark has certain ways it does things, Denmark having five million people—we have 10 million people here in Ontario—it would be just a little smaller than our province but yet it has certain ideas it can take a look at. They have a date that the budget has to come down on, different areas of this where that budget comes down so all the planning is done up to that date and every business and everybody knows that is when the new budget comes in.

As it is now, we have an idea approximately when the budget is coming in. So it will be a better planning process for business out there. I am just throwing that in since I do not see any more questions from the floor. Yes, Mr White. I am sorry.

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Mr White: Just a couple of comments: I am struck by a couple of things in terms of the process the budget preparation goes through, and I think it is important for us to make some comments on that.

I am also a little mystified about the process we have been through. The groups that have presented have ranged widely in terms of their focus and the stakeholders involved. We have had a number of groups such as People Against the NDP Budget, the ABCs etc and specific interest groups that had some interest in funding issues. Then we have had more general discussion, such as this morning, which has spoken of a larger range. It is difficult for me to get a sense of the focus we as a committee are proceeding with. That is something we should be looking at.

I also agree wholeheartedly with Mr Carr that, despite the lack of focus of the proceedings we have been through, there has been through all that some really genuinely non-partisan creative thinking engendered. I was impressed, for example, by the women from Project Economic Growth, who came up with some very creative thinking in terms of how we address budgetary and financial issues, job creation and economic development issues. I was quite surprised by that and I hope we can have that kind of stimulating discussion again.

What I am concerned about here is that we should be looking also at our own process. The range of groups has been quite phenomenal, and somewhat dissonant, I suggest. We should be looking at who we are inviting, what our process is and how that fits with the entire budgetary process.

Mr Phillips: Just as a comment, I think there is some proof in the disjointedness. I think each of them served a purpose. We tried to do it all in two weeks. We have four big chunks we are dealing with. The economic outlook was what we dealt with in the first couple of days. Then we had a combination of the kinds of people who have a huge interest in the fiscal economic stuff, then a smattering of people who had a narrow interest. For me, at least, it was useful to hear from the children's aid society and the food banks, to put the human dimension on it. I think we would have been faulted if somebody had looked at our witness list and said, "Oh, these are just all the big, established groups." Then the latter ones are some suggestions on how we deal with tax.

We have been dealing with huge areas with relatively few witnesses. I personally do not mind the sampling of them and I think we can defend that against people who will say: "Why wasn't I invited? You heard from the children's aid society. We are just as important as they are." I think we can say we were hearing from a cross-section. We did not purport to hear from everybody. Now it is up to us to come to conclusions about how we see the economy, the fiscal situation and the process.

The Chair: I agree with what you are saying. We saw the Victorian Order of Nurses Home Sharing Program. They have a different perspective on how to save money, so actually when they are asking for money they are coming across the traditional way; this is a new way. People want to call them special interest groups. They do have a

special interest. They have a special interest for our seniors out there. We have to listen to a lot of new ideas coming up and new ways to do things. This is how we wind up changing the direction of government, not following the old ways and the old steps because we did it that way last year. I think it is very important that members of the public are able to come forward with new ideas so that we are a progressive government, not an old-style government.

Interjection.

Mr Sutherland: There you go. You could certainly explore that idea. I have noticed one thing with the constitutional conferences, that as the conferences went on each conference became less and less an average-person conference. I do not know if anyone saw any highlights of the last one on the weekend, but boy, there were not a lot of what I would consider to be average-citizen people at the last one. There were a lot of important or allegedly important people, or certainly people who were very representative of organizations etc, or maybe that was just the press reports. There is no doubt there is a growing sense of some success. Ms Ip from the C. D. Howe Institute talked about the sense of developing a consensus of the parameters. "Now you go back and worry about how the specific details work out and having some input into that."

In terms of where we should go with this, I am not sure if we are going to come up with any specific details, but for the short term the best thing may be just to send a copy of the Hansard of some of the different ideas that have come out in the last day or two in our discussions for now, and then maybe when the House comes back we can give it some more focus as to what we would like for specific recommendations to pass back to the Treasurer.

The Chair: I have to say as Chair that I thought I was sitting at a round table. I stepped out of that Chair position. That is why I was commenting. We have this new process here.

Mr Phillips: When you referred to the Conservatives as old-style, I thought I had to defend them.

The Chair: Is there any more business to be dealt with here today? I guess it is the committee's desire to adjourn until the subcommittee meeting on February 24 at 12:30.

The committee adjourned at 1507.

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